

In The Matter Of:

*In the Matter of
The Tax Club*

*Michael Savage
March 2, 2011*

*Precise Court Reporting
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<p style="text-align: right;">Page 1</p> <p>1 2 -----x 3 IN THE MATTER OF 4 THE TAX CLUB 5 -----x 6 7 163 West 125th Street 8 New York, New York 9 10 March 2, 2011 11 10:05 A.M. 12 13 DEPOSITION of MICHAEL SAVAGE, taken 14 pursuant to Subpoena, held at the above-mentioned 15 time and place, before Patricia Wor, a Notary 16 Public of the State of New York.</p>	<p style="text-align: right;">Page 3</p> <p>1 M. Savage 2 MICHAEL SAVAGE, having first been 3 duly sworn by a Notary Public of the State of 4 New York, was examined and testified as 5 follows: 6 EXAMINATION BY 7 MS. PROSPER: 8 Q. Please state your name for the record. 9 A. Michael Savage. 10 Q. What is your current address? 11 A. Business address is: Manhattan 12 Professional Group, Inc./The Tax Club, 350 Fifth 13 Avenue, Suite 6015, New York, New York 10118. 14 Home address is: [REDACTED] 16 MS. PROSPER: Good morning. Thank you 17 for coming. My name Judy Prosper. I'm an 18 Assistant Attorney General in the Office of 19 Eric T. Schneiderman, the Attorney General 20 for the State of New York. 21 Today is March 2, 2011. It's about five 22 after 10. We are in the conference room of 23 the Harlem Regional Office of the New York 24 State Attorney General's office. With me are 25 Assistant Attorney General in Charge of this</p>
<p style="text-align: right;">Page 2</p> <p>1 2 APP E A R A N C E S: 3 4 STATE OF NEW YORK 5 OFFICE OF THE ATTORNEY GENERAL 6 ERIC T. SCHNEIDERMAN 7 163 West 125th Street, Suite 1324 8 New York, New York 10027-8201 9 BY: JUDY S. PROSPER, 10 Assistant Attorney General 11 GUY H. MITCHELL, 12 Assistant Attorney General In Charge 13 14 15 LAW OFFICE OF JOSEPH W. SANSCRAINTE 16 Attorney for The Tax Club and 17 the Witness 18 1120 Avenue of the Americas 19 Fourth Floor 20 New York, New York 10036 21 22 ALSO PRESENT 23 Ann Anorjuste, Intern</p>	<p style="text-align: right;">Page 4</p> <p>1 M. Savage 2 office, Guy H. Mitchell, M-I-T-C-H-E-L-L, one 3 of our interns, Ann Anorjuste, A-N-N, 4 A-N-O-R-J-U-S-T-E, and our court reporter is 5 Pat Wor. 6 Mr. Sanscrainte, can you state your name 7 and appearance and law office address, 8 please. 9 MR. SANSCRAINTE: Sure. Joseph, 10 J-O-S-E-P-H, Sanscrainte, 11 S-A-N-S-C-R-A-I-N-T-E. I serve as General 12 Counsel for The Tax Club and I'm located at 13 1120 Avenue of the Americas, Fourth Floor, 14 New York, New York 10036. 15 MS. PROSPER: This examination is being 16 conducted pursuant to Article 22 of the 17 General Business Law and Article 5 of the 18 Executive Law. The Attorney General has 19 civil and criminal jurisdiction and as such 20 we give you the following warnings: 21 First, anything you say or any documents 22 you produce may be used against you in a 23 legal proceeding. 24 Second, you have the right to refuse to 25 answer any question if a truthful answer</p>

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<p>1 M. Savage 2 would tend to incriminate you criminally. 3 Third, any willful misstatements may 4 constitute perjury. The Attorney General 5 will permit you to have an attorney present 6 during this examination. The attorney's role 7 is limited to consultation with you in order 8 to give you legal advice regarding privileged 9 answers but for no other reason. 10 Do you understand all that I've said? 11 THE WITNESS: Yes. 12 Q. Have you taken any prescription or 13 nonprescription drugs or medication that would 14 effect your ability to proceed? 15 A. No. 16 Q. Are you prepared to proceed? 17 A. Yes. 18 Q. Mr. Savage, have you ever testified 19 under oath in any proceeding before today? 20 A. Yes. 21 Q. Can you name those proceedings, please? 22 A. I was a witness to an incident, like a 23 car accident in Seattle in 1988, '89. 24 Q. Anything else? 25 A. No.</p>	<p>1 M. Savage 2 MR. SANSRAINTE: Don't worry. 3 MS. PROSPER: Could you please, Pat, 4 mark this as AG 1 for identification, please. 5 (Whereupon, AG Exhibit-1, Subpoena Ad 6 Testificandum, was marked for identification, 7 as of this date by the Reporter.) 8 Q. Mr. Savage, showing you what's been 9 marked as AG Exhibit-1 for ID, do you recognize 10 it? 11 A. Yes. 12 Q. What do you recognize it to be? 13 A. The subpoena for my testimony. 14 MS. PROSPER: I'm going to move AG 1 15 into evidence, please. 16 (Whereupon, AG Exhibit-1, as previously 17 described, was marked in evidence, as of this 18 date by the Reporter.) 19 MS. PROSPER: In pertinent part, it is a 20 Subpoena Ad Testificandum for Michael Savage, 21 President, Manhattan Professional Group, 22 Inc./The Tax Club at 350 Fifth Avenue, Suite 23 6015, New York, New York 10118 requesting his 24 appearance on February 15th, but counsel 25 adjourned this to today here in this office</p>
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<p>1 M. Savage 2 Q. Have you ever been the subject of an 3 investigation by any law enforcement agency? 4 A. Personally? No. 5 Q. Personally, I did mean personally. 6 Have you ever been convicted of a crime? 7 A. No. 8 Q. What is your full name, please? 9 A. Michael Savage. 10 Q. Do you have a middle initial? 11 A. M. 12 Q. Which stands for? 13 A. Monahan. 14 Q. Have you ever used any other name? 15 A. Mike. 16 Q. Did you receive notification or a 17 subpoena requiring you to appear at this office? 18 A. Yes. 19 Q. What did you receive? 20 A. I received both, the original 21 subpoena -- well, to appear in this office I 22 received this (handing). 23 Q. Thank you. 24 MS. PROSPER: I guess we'll mark your 25 copy. If you'd like a copy, I'll make it.</p>	<p>1 M. Savage 2 with some warnings about failure to appear, 3 signed by me on January 28th. 4 At this time I would like to mark and 5 enter AG Exhibit-2, which is the Affidavit of 6 Service by Investigator Robin Womack who 7 swears that on January 31st she delivered to 8 Nicole Thornton, a Receptionist at The Tax 9 Club, Exhibit-1 and it's sworn and notarized 10 and this is in evidence as AG Number 2. 11 (Whereupon, AG Exhibit-2, Affidavit of 12 Service, was marked in evidence, as of this 13 date by the Reporter.) 14 Q. Do you recall that The Tax Club had been 15 served with a subpoena to produce documents in 16 February of 2010? 17 A. Yes. 18 Q. Did The Tax Club respond to the subpoena 19 and provide the requested documents? 20 A. Yes. 21 Q. In what form did they provide the 22 documents? 23 A. Both, I would say some in paper form and 24 I think a lot in electronic form. 25 Q. In electronic form? What exactly do you</p>

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<p style="text-align: right;">Page 9</p> <p>1 M. Savage 2 remember or do you know? 3 A. Yeah, files of -- 4 Q. Just the form, you need to tell me what 5 it was, just the form that you sent it to us in, 6 if you know. 7 A. Thumb drives, hard drives. 8 Q. Hard drives? Were all the documents 9 requested produced by the company? 10 A. Yes. 11 Q. Now, throughout the subpoena hearing I 12 will be referring to and showing you some 13 documents culled from that production and asking 14 if you recognize them. 15 A. Okay. 16 MS. PROSPER: If at any time -- I'll 17 tell you this now, the following questions 18 are -- hopefully you'll know the answers to. 19 If at any time you don't know the answer from 20 your personal knowledge, I'll ask you if you 21 know someone else who knows and then we'll 22 move on and we'll note that person's name and 23 contact information and then we'll just kind 24 of keep moving along, but hopefully you'll 25 know the answer to at least the following.</p>	<p style="text-align: right;">Page 11</p> <p>1 M. Savage 2 A. [REDACTED] [REDACTED]. 4 Q. How long did you live there? 5 A. Five years. 6 Q. That's in Manhattan? 7 A. Ahuh. 8 Q. Do you own any real estate in New York 9 State? 10 A. Yes. 11 Q. What is that real estate? 12 A. I own my townhouse on [REDACTED] and I 13 own some property upstate. 14 Q. Where upstate? 15 A. Some vacant, undeveloped property in -- 16 I've been there once. Where is it? It's 17 Cobleskill, Cobleskill, New York. It's just 18 vacant land. 19 Q. Do you own any other real estate in 20 another state or another country? 21 A. Yes, in another state, Connecticut and 22 the State of Washington. 23 Q. What do you own in Connecticut? 24 A. Connecticut I own my house, and in the 25 State of Washington I own my parents' house and</p>
<p style="text-align: right;">Page 10</p> <p>1 M. Savage 2 Q. Mr. Savage, are you currently married? 3 A. Yes. 4 Q. What is your spouse's name and 5 occupation? 6 A. Sandra Savage. She's a stay-at-home 7 mom. 8 Q. Do you have any children? 9 A. Two. 10 Q. How old are they? 11 A. [REDACTED] and [REDACTED] 12 Q. Are these the only children you have? 13 A. Yes. 14 Q. Do you pay any child support to anyone 15 else for any children? 16 A. No. 17 Q. What is your home address? 18 A. [REDACTED] [REDACTED] 20 Q. With whom do you reside there? 21 A. With my wife and kids. 22 Q. How long have you resided there? 23 A. About a year. 24 Q. Where did you reside previous to that 25 going back five years, please?</p>	<p style="text-align: right;">Page 12</p> <p>1 M. Savage 2 my sister's house, and a four-plex. 3 Q. Do you own a car, boat, aircraft or 4 motorcycle? 5 A. Car. 6 Q. What kind of car is it? 7 A. I have a Mercedes SUV. 8 Q. Just one? 9 A. No. Well, my wife's cars? 10 Q. Do you own them? 11 A. No, they're in her name. 12 Q. Do you have a safety deposit box? 13 A. No. 14 Q. Do you have any retirement savings, 15 stocks or investments? 16 A. Yes. 17 Q. Without going into full detail, give me 18 sort of a general idea. 19 A. It's pretty simple. I have a Merrill 20 Lynch account and then I have a 401K from -- 21 yeah, 401K from my previous employer, 22 Pricewaterhouse, and currently at The Tax Club. 23 Q. Were you ever enlisted in the military? 24 A. No. 25 Q. What is your social security number,</p>

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<p style="text-align: right;">Page 13</p> <p>1 M. Savage 2 please? 3 A. [REDACTED] 4 Q. And your date of birth, sir? 5 A. [REDACTED] 6 Q. Do you have a driver's license with you? 7 A. Yes. 8 Q. Can you show it to me, please? 9 A. Sure.</p> <p>10 MS. PROSPER: Thank you. 11 Let the record reflect that the witness 12 has handed me his driver's license and prior 13 to the beginning of the subpoena hearing I 14 made a copy of both front and back of this 15 driver's license. It reads: Michael Savage, 16 Michael M. Savage, [REDACTED] [REDACTED] and the 18 number on the license is [REDACTED], and I ask 19 you to please mark and enter this in evidence 20 as AG Number 3. 21 (Whereupon, AG Exhibit-3, Copy of 22 driver's license, was marked in evidence, as 23 of this date by the Reporter.) 24 Q. What is your highest level of education? 25 A. I have a degree from -- bachelor of</p>	<p style="text-align: right;">Page 15</p> <p>1 M. Savage 2 changed it to Noco, north of Columbus. I own 3 some real estate that's in companies. 4 Q. What kind of companies? 5 A. Like an LLC. 6 Q. What does the company do? 7 A. It's just holds the real estate. 8 Q. This is the real estate you previously 9 testified about? 10 A. Yes. 11 Q. The upstate real estate? 12 A. Yes. 13 Q. And the two houses? 14 A. Yes. 15 Any interest in businesses? I have a 16 consulting company. 17 Q. What kind of consulting? 18 A. It's just an S corporation that manages 19 my properties and some other different business 20 deals that -- where I get -- you know, I get a 21 commission or broker fee on. That's it. Those 22 are my business interests. 23 Q. What is the name of the LLC that holds 24 your interests? 25 A. I have Utsayantha, U-T-S-A-Y-A-N-T-H-A,</p>
<p style="text-align: right;">Page 14</p> <p>1 M. Savage 2 science degree from Brigham Young University. 3 Q. What was your major? 4 A. Accounting. 5 Q. Do you have any other degrees or 6 certifications? 7 A. I have a CPA license that is inactive. 8 I haven't kept it up. You know, I haven't kept 9 it active, but, yeah, I was a CPA. 10 Q. Other than The Tax Club, I'll ask you a 11 lot of questions about that later, have you 12 previously had any interest in any other tax or 13 business organization related company? 14 A. "Interest" meaning ownership? 15 Q. Ownership, yeah. 16 A. In a tax related -- 17 Q. Tax related or business organization 18 related company. 19 A. I own other companies or have interest 20 in other companies. 21 Q. You do? 22 A. Yes. I own a lounge up the street, 23 109th and Columbus. 24 Q. What's the name of it? 25 A. It was called La Negrita. Now they just</p>	<p style="text-align: right;">Page 16</p> <p>1 M. Savage 2 LLC. 3 Q. Where is that incorporated? 4 A. In New York. 5 Q. Just in sum and substance, what -- 6 A. That holds the properties here. 7 Q. Here in New York State? 8 A. Yes. And then I have Celina 9 Enterprises, C-E-L-I-N-A Enterprises, and that 10 runs the coffee shop here on 109th Street, that 11 owns that, has a liquor license in its name, and 12 then I also have a -- what else do I have? 13 What's it called? Tuncol, LLC. 14 Q. Spell it. 15 A. T-U-N-C-O-L, LLC in Washington State. 16 Q. What is Tuncol? 17 A. It does consulting and real estate 18 services for the property I own in Washington 19 State. 20 Q. By "property," are those the homes you 21 mentioned earlier in your testimony? 22 A. Yes. 23 Q. Are there any commercial properties? 24 A. Four-plex. 25 Q. Is it rented?</p>

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<p style="text-align: right;">Page 17</p> <p>1 M. Savage 2 A. Loosely to a sister-in-law who doesn't 3 pay rent, but yes. 4 Q. Can you describe your employment history 5 for the last 10 years? 6 A. Sure. 7 Q. Please. 8 A. Prior to working at The Tax 9 Club/MANHATTAN Professional Group, one and the 10 same, I worked at Pricewaterhouse for 11 approximately five years in the fraud 12 investigation department. 13 Q. What years, approximately? 14 A. '98 to 2003. 15 Q. When did you begin to affiliate with The 16 Tax Club? 17 A. In 2003. 18 Q. Have you ever been fired from any 19 position, other than for downsizing or 20 restructuring? 21 A. No. 22 Q. Did any of your prior jobs require you 23 to supervise others? 24 A. Yes. 25 Q. If so, how many people did you</p>	<p style="text-align: right;">Page 19</p> <p>1 M. Savage 2 was a dream of his to have a business in New 3 York, so after looking into what The Tax Club was 4 and the potential, at that point I decided to 5 join as a head accountant. I was the only CPA 6 that Ted knew at the time so -- and we were 7 friends, we went to college together, and that 8 was in 2003, and then I just progressed through 9 the company to become the President, I would say, 10 two years ago, two or three years ago. 11 MR. MITCHELL: Let me interject. I got 12 to ask a question. 13 What about The Tax Club in 2003 did you 14 know surrounding the organization, 15 surrounding what the purpose of The Tax Club 16 was in 2003? 17 THE WITNESS: In 2003 I understood it to 18 be what it is now, essentially tax 19 preparation, tax consulting, tax planning, 20 services for the small business, brand new 21 business owner, entrepreneur. 22 What I liked -- what I saw that I really 23 liked was that it brought bigger services 24 like what I was used to doing at 25 Pricewaterhouse to a brand new small business</p>
<p style="text-align: right;">Page 18</p> <p>1 M. Savage 2 supervise? 3 A. Five people. 4 Q. What were their positions? 5 A. Junior associates, senior associates at 6 Pricewaterhouse. 7 Q. What was your position at 8 Pricewaterhouse? 9 A. Senior Associate. 10 Q. What is your current position at The Tax 11 Club? 12 A. I'm the President. 13 Q. How did you first come to be related to 14 The Tax Club? Can you give me a little history 15 about The Tax Club, please? 16 A. Sure. In 2003 I received a phone call 17 from a friend of mine from college, Ted Johnson, 18 the owner of The Tax Club, and he asked me for 19 some assistance, some accounting assistance with 20 his new business, The Tax Club, and so -- 21 Q. Where was this business? 22 A. It's in Utah, and so I said, you know, 23 I'm fine here at Pricewaterhouse and don't really 24 want to move but I'll help you out, and I know he 25 wanted to open a business in New York City. It</p>	<p style="text-align: right;">Page 20</p> <p>1 M. Savage 2 owner. 3 BY MS. PROSPER: 4 Q. Tell me the name of your friend again. 5 A. Ted Johnson. 6 Q. What was Ted Johnson's position with the 7 Utah Tax Club? 8 A. Owner. 9 Q. He was the owner? 10 A. He still is. 11 Q. Was The Tax Club ever known by any other 12 names? 13 A. No. 14 Q. What are your current responsibilities 15 at The Tax Club? 16 A. As the President? 17 Q. Yes. 18 A. I oversee reporting, fulfillment 19 reporting. I oversee finances. I meet regularly 20 with the department heads, the heads of the 21 different departments and talk about customer 22 service, product fulfillment, client relations, 23 growth in the business, marketing. I'm high 24 level. I admittedly don't -- I'll tell you, you 25 know, I don't know all the details, but yeah, I</p>

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<p style="text-align: right;">Page 21</p> <p>1 M. Savage 2 primarily meet with the department heads and 3 discuss direction for the company and make 4 decisions on where to take the company from a 5 marketing perspective, from a financial 6 perspective, from an operational perspective. I 7 allow a lot of the department heads a great deal 8 of flexibility, you know, but ultimately I 9 delegate to them the ability to make their own 10 decisions and I review and discuss and consult a 11 lot.</p> <p>12 Q. Are you sort of the top person at The 13 Tax Club in New York?</p> <p>14 A. In New York, yes.</p> <p>15 Q. So I'm going to get some details on 16 that.</p> <p>17 What kind of corporate entity is The Tax 18 Club, the thing you call "The Tax Club"?</p> <p>19 A. It's an S corporation.</p> <p>20 Q. Where is it incorporated?</p> <p>21 A. Utah.</p> <p>22 Q. Is it incorporated in anyway in New York 23 State?</p> <p>24 A. It's registered here.</p> <p>25 Q. "Registered," and what is it registered</p>	<p style="text-align: right;">Page 23</p> <p>1 M. Savage 2 10118. 3 Q. What about the Utah? 4 A. Utah, 1620 -- no, sorry. It is 1492 -- 5 1429 Silicone Way, St. George, Utah. 6 Q. Can you explain to me the relationship 7 between the Utah office and the New York office? 8 A. Absolutely. Everything started in the 9 St. George, Utah office and we originally set up 10 the office in New York City strictly for 11 fulfillment, just preparing tax returns and 12 offering tax consulting to the clients in which 13 the St. George office sold services to. They're 14 primarily a sales division, just sales. I mean, 15 originally it was all there, and so we set that 16 up in 2003, and the relationship still to this 17 day, everything that is sold in New York State is 18 fulfilled in -- I'm sorry, everything that's sold 19 in Utah, in the State of Utah is fulfilled here 20 in New York City.</p> <p>21 Q. When you say "fulfilled," can you 22 elaborate?</p> <p>23 A. Tax preparation, the preparation of tax 24 returns, signing tax returns, offering tax 25 advice, tax consulting, tax planning, business</p>
<p style="text-align: right;">Page 22</p> <p>1 M. Savage 2 as? 3 A. Doing business as The Tax Club, a Utah 4 corporation. 5 Q. Doing business here in New York? 6 A. Yes. 7 Q. Is it known here in New York by any 8 other name? 9 A. No. 10 Q. What about Manhattan Professional Group? 11 A. Manhattan Professional Group is a 12 separate entity, another S corporation that is -- 13 that deals with -- that owns the brands to other 14 products that aren't tax related. We set up 15 Manhattan Professional Group to manage business 16 services that don't necessarily only pertain to 17 tax. 18 Q. We'll talk about those a little bit 19 later. 20 Can you give me the names and addresses 21 of the principal places of business for The Tax 22 Club? 23 A. Principal place would be here in New 24 York City in the Empire State Building, 350 Fifth 25 Avenue, the entire 60th floor, New York, New York</p>	<p style="text-align: right;">Page 24</p> <p>1 M. Savage 2 plans. We'll get into that, right? 3 Q. Yes. 4 Are there offices in any other states 5 besides Utah and New York? 6 A. We have had offices in other states. 7 Currently? 8 Q. Yes. 9 A. No. 10 Q. Where did you used to have offices? 11 A. We've had an office in Arizona, 12 Washington State and Texas and Wyoming. 13 Q. Just a little bit more about how you 14 progressed through. You testified earlier that 15 you started out as head accountant? 16 A. Ahuh. 17 Q. And then can you just give me a little 18 bit of a progression of how you came to be the 19 President? 20 A. Absolutely. I started out as the head 21 accountant. My first task was to fulfill the tax 22 returns. Really basic, preparing tax returns, 23 get them out the door, servicing the clients. 24 Q. I'm going to interrupt. 25 When you talk about "clients," who are</p>

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<p style="text-align: right;">Page 25</p> <p>1 M. Savage 2 these "clients"? 3 A. Small businesses that are in all 50 4 states. And soon thereafter, having a business 5 background, I guess, I started taking over more 6 and more administrative duties of the business. 7 Q. That's here in New York or in Utah? 8 A. In New York. Everything has always been 9 in New York. I've always been in New York. And 10 we just started doing more and more in New York. 11 We started up selling other products, 12 bookkeeping, payroll, business plans, and that 13 was being -- those were being sold for the 14 first -- for the first time something was being 15 sold in New York and fulfilled in New York, and 16 the company naturally grew in New York, but the 17 way that I progressed through was just taking on 18 more responsibility and running more of the 19 day-to-day administrative as opposed to the 20 day-to-day fulfillment. Again, preparing the tax 21 returns. 22 Q. So how much of the business is dedicated 23 to preparing tax returns versus some of the other 24 stuff that you've described? 25 A. Tax returns are our primary -- that's</p>	<p style="text-align: right;">Page 27</p> <p>1 M. Savage 2 Q. As what officer did you -- 3 A. I don't remember what -- what -- you 4 know, what we said on the incorporation papers, 5 but now I'm the President. 6 Q. Were you involved in the actual drafting 7 and signing of the incorporation -- of the 8 registration papers as you called them earlier 9 here in New York? 10 A. For Manhattan Professional Group, I 11 believe so. 12 Q. Is Manhattan Professional Group 13 something that you yourself started sort of as an 14 offshoot or Manhattan Professional Group is a 15 part of The Tax Club? 16 A. Well, this is how -- originally we set 17 up an entity to sign the lease just to be -- just 18 to sign the lease in the Empire State Building, 19 it was Manhattan Professional Group, and Ted owns 20 it, owned it. He set it up. I think I might 21 have signed it as a resident agent or point of 22 contact, and then when we started to develop 23 other products, bookkeeping, payroll business 24 plans, we were going to incorporate -- you know, 25 each brand is its own business, but we just put</p>
<p style="text-align: right;">Page 26</p> <p>1 M. Savage 2 our core product. Every time we talk to a 3 client, we introduce them to the -- to our tax 4 club membership, which is an incorporation 5 service and tax preparation, tax consulting, 6 year-round tax consulting, and from there, 7 depending on their situation, we offer other up 8 sells, whether it be a bookkeeping packages, 9 payroll services, business plans, so on. 10 Q. In Utah there's only one partner. Are 11 there other partners either in Utah or in New 12 York? 13 A. There's only one owner. 14 Q. One owner of the whole entire Tax Club? 15 A. Yes. 16 Q. So there's no other people sharing in 17 the profits, so to speak? 18 A. No. 19 Q. Were you involved in the incorporation 20 of the company? 21 A. No. The company was already 22 incorporated for a couple years before I started. 23 I was involved in the formation of Manhattan 24 Professional Group as an officer but not as an 25 owner.</p>	<p style="text-align: right;">Page 28</p> <p>1 M. Savage 2 them all under Manhattan Professional Group since 3 we already had that company up and running and it 4 was, you know, vague enough to be able to 5 encompass more than tax. Tax Club is like only 6 tax. 7 Q. You said that the gentleman -- I'm 8 terrible with names. 9 A. Ted. 10 Q. Ted, thank you. 11 Ted owns Manhattan Professional Group as 12 well? 13 A. Yes. 14 Q. But they are two separate entities? 15 A. Yes. 16 Q. And is Manhattan Professional Group 17 incorporated in Utah or just in New York? 18 A. Just in New York, as far as I know. 19 They might be registered as a foreign entity in 20 Utah for tax purposes, but I couldn't say for 21 certain. 22 Q. I'm going to show you for informational 23 purposes what I'm going to call AG Exhibit-4 for 24 identification, please. 25 (Whereupon, AG Exhibit-4, Incorporation</p>

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<p style="text-align: right;">Page 29</p> <p>1 M. Savage 2 paperwork for Manhattan Professional Group, 3 Inc., was marked for identification, as of 4 this date by the Reporter.) 5 Q. AG Exhibit-4 for identification is a 6 four-page exhibit. 7 I'm going to ask you to just look it 8 over and see if you recognize what it is, if it's 9 familiar to you? 10 A. Yes. It's the Certificate of 11 Incorporation. 12 Q. For? 13 A. Manhattan Professional Group. 14 Q. That's how many of the four pages? 15 A. This would be, okay, the Articles of 16 Incorporation. This is the certificate 17 (indicating). 18 Q. The third page you're referring to? 19 A. Yes. Registered Agent, that's what I 20 was. Okay, this is the S Corp. Election. 21 Q. The S Corp. -- 22 A. S Corp. Election to be taxed as an S 23 Corp., meaning flow-through entity. 24 MS. PROSPER: I'm going to put these 25 into evidence since they're documents you</p>	<p style="text-align: right;">Page 31</p> <p>1 M. Savage 2 going to ask to be marked as Exhibit-5. 3 (Whereupon, AG Exhibit-5, Seven-page 4 document, was marked for identification, as 5 of this date by the Reporter.) 6 Q. Mr. Savage, I'm going to ask you to take 7 a look at this, the seven pages I think it was, 8 and tell me if it's something that's familiar to 9 you. 10 A. Yes, organizational chart. 11 Q. Is this structure still in operation? 12 A. Yes. 13 Q. Are the same people that are indicated 14 on this -- these charts -- this is actually part 15 of it, I think. It talks about the various 16 departments. 17 A. Okay. 18 Q. It came together in the production. 19 A. Okay. He left a week ago, Database 20 Management, Terry Owens. 21 Q. You can write on that. I'll give you a 22 pen. If you know the name of the new person who 23 is in that position -- 24 A. Still looking for somebody. 25 Q. So you could just put "vacant," that</p>
<p style="text-align: right;">Page 30</p> <p>1 M. Savage 2 recognize as being incorporation papers for 3 Manhattan Professional Group as AG 4. 4 (Whereupon, AG Exhibit-4, as previously 5 described, was marked for identification, as 6 of this date by the Reporter.) 7 MS. PROSPER: I'll say it again, if you 8 know the answers, please provide them. If 9 you don't know the answers but know who could 10 provide the answers, you know, don't guess or 11 don't -- you know, we could just keep moving 12 on. 13 Q. How many employees work at each 14 location, in New York and Utah? 15 A. It changes. I tried to get -- I tried 16 to nail that down before I came here in 17 anticipation of this question, but right now we 18 have approximately 200 total employees. In New 19 York I would say about 150 to 180, it varies, and 20 in Utah I would say 20 to 30. 21 Q. I'm showing you what I'm going to mark 22 as AG Exhibit-5. These documents, again, were 23 culled from the production that The Tax Club made 24 in and around April of 2010, and this is for 25 identification a seven-page document that I'm</p>	<p style="text-align: right;">Page 32</p> <p>1 M. Savage 2 would be great. 3 MR. MITCHELL: And initial it. 4 (The witness complied.) 5 MS. PROSPER: Thanks. 6 A. This is limited, if any, activity. 7 There isn't a sales force anymore, so should I -- 8 Q. Yes, please. 9 A. They sell one of our brands. It's 10 not -- we're not necessarily incorporated there. 11 We outsource these sales. 12 Q. You're referring to -- 13 A. Clearwater. 14 Q. -- "3) Clearwater, Florida"? 15 A. Should I say exactly what they sell? 16 Q. Sure. 17 A. Corporate Tax Network. Corporate Tax 18 Network. 19 MR. SANSCRAINTE: Could I interrupt just 20 one second? I'm worried about the court 21 reporter. Are you okay? Just in general 22 just kind of describe what you're doing as 23 you're doing it. 24 MS. PROSPER: Right, you're marking up 25 the 7th page of the exhibit, AG Number 5,</p>

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<p style="text-align: right;">Page 33</p> <p>1 M. Savage 2 updating it, basically. 3 MR. MITCHELL: For identification. 4 MS. PROSPER: For identification. 5 Q. So is this a fair and accurate 6 representation of the Manhattan Professional 7 Group as it stands in New York? 8 A. Yes. 9 MS. PROSPER: I'm going to enter AG 5 10 into evidence, please. 11 (Whereupon, AG Exhibit-5, as previously 12 described, was marked in evidence, as of this 13 date by the Reporter.) 14 MS. PROSPER: Now that we have AG Number 15 5 in evidence, I just want to note for the 16 record a few changes made by the witness, 17 Mr. Savage. 18 On the fourth page of the exhibit, 19 Database Manager, the name Terry Owens is 20 crossed out and that position is vacant, and 21 on the sixth page the name Richard Cappelli 22 is crossed out and that position of Sales 23 Manager for Team C is now vacant, and on the 24 last page of the exhibit entitled Manhattan 25 Professional Group Offices, under Number 2,</p>	<p style="text-align: right;">Page 35</p> <p>1 M. Savage 2 and he oversees all of our tax operations, 3 meaning he ensures that we're compliant with all 4 the IRS regulations as a tax preparation firm. 5 He also makes sure that the clients are getting 6 fulfilled. Whatever package or whatever product 7 they bought, he ultimately makes sure that they 8 get exactly what it is that they bought. He also 9 oversees client services which also deals with 10 clients. It's a customer service department. 11 When clients are -- you know, if they have any 12 issues that fall outside of our process, he deals 13 with those, with the people in charge of those 14 clients and operations in general. Again, he 15 assures that everybody gets their -- our clients 16 get their tax returns, makes sure that we sign 17 them. He also oversees our bookkeeping product. 18 He makes sure that the books are prepared in 19 accordance with Generally Accepted Accounting 20 Principles, and his role is very compliance 21 focused with the IRS. 22 Brendan Pack is our Sales Manager. He 23 is in charge of sales, making sure that we 24 continue to make sales, and he also oversees the 25 sales managers making sure that they are -- that</p>
<p style="text-align: right;">Page 34</p> <p>1 M. Savage 2 Seattle, Washington (a) Sales Floor is 3 crossed out and Number 3, Clearwater, Florida 4 (outsourcing) (a) Sales Floor Mr. Savage 5 added a slash and Corporate Tax Network. 6 Q. Can you briefly describe the roles of 7 the various departments and how they might 8 interface with each other? 9 A. Sure. I'll start from the top. 10 Q. Please. 11 A. I've already described what I do. 12 Lindsey Kush, we worked together at 13 Pricewaterhouse, and I brought her on to run as 14 the controller essentially. She deals with all 15 of our -- the accounting, all of our debits and 16 credits of the money coming in and the money 17 going out. She also oversees human resources, 18 public relations, but her primary duty is as a 19 controller. She sets the budgets. She makes 20 financial decisions on -- she makes a lot 21 decisions based on what bills get paid and how 22 much we have per department. That's what she 23 does as a controller. 24 Gary Milkwick, he is Director of 25 Operations. He's a certified public accountant</p>	<p style="text-align: right;">Page 36</p> <p>1 M. Savage 2 they aren't only making their -- you know, 3 reaching their goals or their -- or whatnot, you 4 know, bringing in revenue but also that they are 5 in compliance with our sales best practices 6 policies. He's involved with creating and 7 managing sales teams. 8 Lindsey, again, she's over billing. Her 9 right-hand person would be Christine Vazquez, and 10 what Lindsey oversees is making sure that 11 everyone gets refunded who requests a refund 12 within our refund policy. She makes sure that 13 people don't fall through the cracks. She 14 manages our billing practices, making sure that 15 we are in compliance with general merchant 16 account, you know, Visa/MasterCard regulations, 17 making sure that we handle our refunds and 18 chargebacks effectively. She oversees human 19 resources. I don't think she does much with 20 human resources. 21 Tracy Stead is our HR manager and she 22 oversees hiring and firing and administrating 23 drug testing, making sure that employees sign our 24 employee handbooks, 401K administration, health 25 care administration, makes sure everyone gets</p>

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<p style="text-align: right;">Page 37</p> <p>1 M. Savage 2 health care. She does some recruiting and she's 3 in charge of all the compliance that we have with 4 human resource law and employment law. 5 Matthew Cohen is no longer with us. 6 Q. Let the record reflect that the witness 7 is making edits to the second page of the 8 exhibit. 9 A. Her name is Shakista. I don't know the 10 last name. 11 Naressa, Linda oversees Naressa. 12 Naressa makes sure that we process our 13 chargebacks. We do quite a bit of volume. We do 14 close to 1,000 transactions a week and 15 inevitably -- we have extensive merchant account 16 maintenance, meaning when chargebacks come in, a 17 chargeback is when a client doesn't necessarily 18 recognize the charge or calls their credit card 19 company and reverses the charge for various 20 reasons. She does the research and presents our 21 case to the credit card companies and gets them 22 reversed, meaning we win the chargeback. She's 23 in charge of winning chargebacks. 24 Q. Since we talked about the edits earlier, 25 I just want to reflect the actual edit made on</p>	<p style="text-align: right;">Page 39</p> <p>1 M. Savage 2 the enrolled agent ability to talk on a client's 3 behalf to the IRS and represent a client to the 4 IRS, and it's actually more extensive than a 5 certified public accounting as far as tax 6 preparation, tax planning, tax -- very tax 7 specific certification. 8 So Joe Rush is in charge of our 9 Corporate Department. What our Corporate 10 Department does in general is help assist clients 11 in registering the appropriate entity from a tax 12 perspective, what benefits them, you know. What 13 we do is we go over different tax scenarios, 14 whether they're a C Corp., LLC, S Corp., sole 15 proprietor, and we assist the clients in making 16 that decision as to what entity they want to 17 structure and we prepare all the incorporation 18 papers for them. 19 Q. Which division does that specifically? 20 A. It's either Corporate Department or 21 Incorporation Department. 22 Q. That's overseen by? 23 A. Joe Rush who assist Director of Tax 24 Operations. Again, I think we have filed over 25 8,000 businesses and --</p>
<p style="text-align: right;">Page 38</p> <p>1 M. Savage 2 page two to replacing Matthew Cohen as Assistant 3 to the HR Manager with the first name Shakista, 4 S-H-A-K-I-S-T-A. Sorry to interrupt you. 5 A. No problem. 6 You know, feel free to interrupt me. I 7 could elaborate on what they do. 8 Q. This is exactly what we need. 9 A. This is high level. I mean, I could 10 drill down and talk about details. 11 Q. Those details may come up, but let's go 12 ahead with the overhead. 13 A. Gary Milkwick, Vice President of 14 Operations. He's in charge of -- we'll start 15 from the top, tax operations. Joe Rush is our 16 Director of Tax Operations. He's an EA, Enrolled 17 Agent. 18 Q. Describe what "enrolled agent" is. 19 A. An enrolled agent is -- every one of our 20 tax preparers are tax professionals either as a 21 CPA or EA or is in the process of becoming one, 22 whether they've taken parts of the test or the 23 whole test, and essentially what this is is -- an 24 enrolled agent has a very tax specific 25 certification that the IRS provides that it gives</p>	<p style="text-align: right;">Page 40</p> <p>1 M. Savage 2 Q. When you say you filed them, what does 3 that mean? 4 A. I mean, we prepared the corporation 5 documentation. We send that documentation to the 6 client, they sign it, they pay the state fee and 7 send it in. 8 Q. What happens when they do that? What's 9 the end result of that process? 10 A. Then they form an entity, whether it's 11 an LLC or an S Corp. or a C Corp., they have an 12 official entity that -- in which they're doing 13 business. They're doing business within that 14 entity, depending whether they have a local, I 15 don't know, coffee shop, bookstore or they have a 16 web site that does -- you know, sells things on 17 line or real estate. We have a bee farmer. 18 Q. You provide this service throughout the 19 country? 20 A. Yes, in all 50 states. 21 Q. What about internationally? 22 A. We do some work in Canada, not that 23 much, pretty immaterial, but yeah, we have 24 serviced some clients in Canada. 25 Q. Any other countries?</p>

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<p style="text-align: right;">Page 41</p> <p>1 M. Savage 2 A. Australia, same thing, not to the extent 3 that we deal with Canada, but I would say it's 4 immaterial as well as -- "immaterial" meaning 5 it's a small percentage, less than five percent 6 of our business, as well as England. You know, 7 pretty much the English speaking countries. 8 Okay, so Joe Rush is also -- he also 9 oversees our different accounting zones. We have 10 divided up our accountants based on time zones. 11 Because we are in every state, we have tens of 12 thousands of clients throughout the country and 13 it's easier from a phone management, from a time 14 management perspective to break it up Eastern, 15 Mountain, Central, Pacific zones so we have the 16 phones manned during those times, and so, again, 17 that's just how we organize our tax preparation, 18 and, you know, we'll prepare 50 to 75,000 tax 19 returns a year and this is just part of the 20 organization of handling that volume. 21 Q. Can I ask you, now that you've given us 22 an amount of the number of returns, how many CPAs 23 or registered agents do you have servicing that 24 number of clients? 25 A. We have approximately 100 tax</p>	<p style="text-align: right;">Page 43</p> <p>1 M. Savage 2 A. Tax professionals. The breakdown I 3 don't know. It fluctuates. 4 Q. Do you know who would know specifically 5 how many CPAs and registered agents? 6 A. Gary Milkwick or I could find out today. 7 You know, all of our zone managers are either 8 CPAs or EAs. The management team is all 9 certified and they, again, sign the tax return. 10 If you prepare a return, you have to sign it. If 11 you touch a return, you have to sign it. 12 Q. So even though the tax professionals who 13 aren't CPAs or EAs, do they sign too, like an 14 intern helped out with this, recognition that 15 someone besides the person who signed it touched 16 it as you described they legally can? 17 A. I think that's changing this year where 18 every tax preparer has to be certified, which is 19 a great thing, but the way it works as per IRS 20 regulations is that the manager, the last person 21 to review it -- and all of our tax returns go 22 through several review processes, so the manager 23 reviews the tax return, the manager has to sign 24 so that in the event -- which is not the case, 25 but if a tax professional, I don't even think</p>
<p style="text-align: right;">Page 42</p> <p>1 M. Savage 2 professionals, some are CPAs, some are EAs. 3 Q. Are some not? 4 A. Some are admin, yeah, but anyone who is 5 talking to a client or touching a tax return is 6 in -- you know, we have a process. It's very 7 similar to what we did at Pricewaterhouse where 8 they're on a path to becoming an EA or CPA. They 9 have to be. 10 Q. When you say "on the path," are they 11 attending school or classes elsewhere or is that 12 part of The Tax Club training or in-house 13 program? 14 A. Yeah, we have a lot of in-house 15 training. We also have -- we also pay for review 16 courses like Becker, CPA review courses. We'll 17 pay for that. We'll cover those expenses. But 18 all of our professionals are -- you know, they 19 already have a degree. 20 Q. Like what kinds of degrees? 21 A. Accounting degree, and so, yeah, they're 22 in route to becoming certified. 23 Q. You used the sum 100. You said you have 24 100 tax professionals or 100 CPAs and registered 25 agents.</p>	<p style="text-align: right;">Page 44</p> <p>1 M. Savage 2 they need a college degree, I think HR Block they 3 don't necessarily need college degrees to sign 4 returns, but in our case, yes. 5 Q. How many managers do you have? 6 A. We have one representing each zone, zone 7 managers. 8 Q. How many zones are there? 9 A. Four. 10 Q. To represent the time zones you're 11 saying? 12 A. Yes, and then we have director of -- Joe 13 Rush who is in charge of those four and then we 14 have Gary who is in charge of Joe. 15 Q. Is there anything else under operations 16 that we didn't cover? 17 A. Well, there's operations. I'll break it 18 down with fulfillment. This would be 19 fulfillment, the corporate -- set up the 20 corporate entities, tax preparation under 21 operations. We also have our customer service, 22 as well as our business plans and some sales 23 verification processes that we call compliance. 24 Can we talk about that in operations 25 or --</p>

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<p style="text-align: right;">Page 45</p> <p>1 M. Savage 2 Q. Sure. 3 A. Okay. Client services, essentially we 4 have a department, roughly a dozen what we call 5 account executives but they're customer service 6 representatives. We found that account 7 executives, the clients like that term, and we 8 assign every client when they come on board a 9 client executive. The next day the account 10 executive has a meeting with the client and let's 11 them know they're the point of contact.</p> <p>12 Q. How do they have a meeting, in person 13 or --</p> <p>14 A. No. That's the important point, is that 15 99 percent of our -- fulfillment of our 16 operations is not in person. It's all over the 17 phone or via e-mail. It's all electronic. We're 18 a virtual office, paperless office, but that's 19 not to say that we wouldn't -- we love when 20 clients come to visit us. We are in a sense 21 brick and mortar that in the sense that we have 22 25, 28,000 square feet in the Empire State 23 Building and we love when clients come by. We 24 take them on a tour and we do workshops every 25 month that we allow our clients come to.</p>	<p style="text-align: right;">Page 47</p> <p>1 M. Savage 2 individual testimonials. I know we sent them to 3 you, but most of them come from the workshops. 4 They're super excited. We put them in our green 5 room and it's great PR for us, because it's a 6 constant struggle. I think it's important to 7 mention, the PR struggle of having a virtual 8 office and telesales, it's tough. You could 9 get -- you know, there's a lot of web sites out 10 there that disparage companies, virtual companies 11 recovery services, you know, in order to -- they 12 get paid on causing refunds or chargebacks or AG 13 issues for these virtual companies, and so, 14 anyway, long story short, we're making a big push 15 to have these face-to-face workshops and we're 16 going to go across the country with them.</p> <p>17 Q. Do your clients come from across the 18 country to come to New York?</p> <p>19 A. Yes.</p> <p>20 Q. You just mentioned that you're going to 21 be going on the road --</p> <p>22 A. Yes.</p> <p>23 Q. -- with these?</p> <p>24 A. That's what we want to do and we're 25 working that out now, but in the interim we're</p>
<p style="text-align: right;">Page 46</p> <p>1 M. Savage 2 Q. What kind of workshops? 3 A. Small business workshops. You know, 4 they're free workshops. Obviously we don't sell 5 anything at the workshop, and every client has -- 6 they tell me they're very successful. The 7 clients love them. They're two days and we just 8 got -- we signed a 10-year lease in the Empire 9 State Building this year, or 2010, and we just -- 10 we obtained another 7,000 square feet where we're 11 building a classroom or a 50-person plus 12 conference center where we're going to really 13 focus on these workshops. The feedback we get 14 from our clients is that they love it, because, 15 unfortunately, not being -- one of the challenges 16 that we face being a virtual office is that our 17 clients, you know, our relationship for the most 18 part is just as a telephone relationship or 19 e-mail relationship, and so clients will get 20 frustrated quickly if they don't get a hold of 21 us. They oftentimes will think that we don't 22 exist. I think that also is a by-product of 23 telesales, that, you know, it's just a challenge, 24 so we found that these workshops are very 25 effective, clients love them, and so we do</p>	<p style="text-align: right;">Page 48</p> <p>1 M. Savage 2 sticking with our local workshops, and people 3 love to come to New York City. It's a fun 4 destination. We take them to the top of the 5 Empire State Building. It's a two-day workshop, 6 okay, so --</p> <p>7 Q. While we're talking about the 8 operations, do you have any attorneys on your 9 staff?</p> <p>10 A. Two full-time attorneys.</p> <p>11 Q. Who do the attorneys work under?</p> <p>12 A. Joe is our General Counsel and we have 13 another attorney, Preston Clark, and he doesn't 14 work as an attorney, even though he's -- he's the 15 same thing as a CPA. He's current.</p> <p>16 MR. SANSRAINTE: He's a licensed 17 attorney.</p> <p>18 A. He's in charge of our customer services.</p> <p>19 We've hired him recently.</p> <p>20 Q. When you say he doesn't serve as an 21 attorney, can you elaborate?</p> <p>22 A. He's -- he doesn't oversee our legal 23 department or legal issues per se.</p> <p>24 Q. Do you have a legal department?</p> <p>25 A. Yes, Joe.</p>

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<p style="text-align: right;">Page 49</p> <p>1 M. Savage 2 Q. Within your day-to-day operations, are 3 your employees consulting with any attorneys is 4 kind of more the question I had? 5 A. No. Maybe some of the directors will 6 talk to you about certain things, but I talk to 7 Joe a lot. As far as consulting, yeah, you know, 8 I do. 9 Q. Thank you. 10 On specific client matters are attorneys 11 consulted, the two that you have, with regard to 12 a specific client or client issue? 13 A. Yes. 14 Q. Can you explain how that could happen? 15 A. Sure. We had a small claims court issue 16 where a client wanted all their money back. We 17 had provided extensive fulfillment for them, 18 business plan, tax return. I'm not sure exactly 19 what we did for them, but it was enough where 20 they're well out of our refund policy, which is 21 100 percent back within three days of request and 22 15 days 85 percent back, but they were well out 23 of that, and so they sued us in small claims 24 court. Joe went and I think it was in mediation 25 or something. We won.</p>	<p style="text-align: right;">Page 51</p> <p>1 M. Savage 2 on the actual client incorporations as you say or 3 issues with their specific fulfillment? 4 A. No. No. We're strictly an accounting 5 firm. 6 Q. So you don't have any paralegals on your 7 staff? 8 A. No. 9 Q. We were getting through this, so let's 10 keep going, I guess, the organizational chart. 11 A. Please interrupt with me questions, 12 because, you know, there's so, so much. 13 Q. That's fine. I want to get it from you. 14 I don't want to interject too much. We all have 15 an idea of what things are from looking at the 16 paper. I really would like to just get it from 17 you -- 18 A. Okay. 19 Q. -- to debunk anything that's wrong in my 20 head. 21 A. Okay. So we have -- you know, here's 22 another change too. 23 Q. Okay, so let the record reflect that 24 Mr. Savage is changing page three of now in 25 evidence Exhibit-5.</p>
<p style="text-align: right;">Page 50</p> <p>1 M. Savage 2 MR. SANSCRAINTE: Ahuh. 3 A. But that would be a case where it would 4 go to Joe, and we also have -- that's client 5 matters which aren't as common as we have -- 6 there's -- right now, I mean, what we've been 7 dealing with the last couple of months, so 8 recovery services are out there. We're in 9 litigation or trying to be in litigation with 10 these companies that will contact our clients and 11 tell them the refund chargeback or write a letter 12 to the attorney general. One of these recovery 13 services was mentioned in the original subpoena. 14 It's a popular -- I don't know. It seems like 15 it's getting more and more popular. We're 16 fighting it more and more often, and we have Joe 17 writing letters, you know, threatening to sue, 18 cease and desist type stuff, and for the most 19 part it works, but there's still some out there 20 that we're fighting with. 21 Q. Now, that's representation of The Tax 22 Club, the entity? 23 A. Yes. 24 Q. Do you have any attorneys on staff or 25 legal professionals or paraprofessionals who work</p>	<p style="text-align: right;">Page 52</p> <p>1 M. Savage 2 A. I shouldn't have crossed out Nicole 3 Joseph-Pauline's position, because she still 4 works with us and she still does that. 5 Q. "That" being head of -- 6 A. Head of Client Services. She's Head of 7 Client Services, this is what I should say, and 8 now instead of Client Services being under Gary 9 Milkwick, VP of Operations, we have a new Vice 10 President of Client Services, Preston Clark. 11 Q. So there's a new position added. Do you 12 have an updated organizational chart? 13 A. Absolutely. 14 RQ MS. PROSPER: So we'll ask for that to 15 be produced and updated, an organizational 16 chart 17 Q. But go ahead and let the record 18 reflect that changes were made to page three 19 where Client Services no longer exists and 20 Preston Clark is now the -- I don't want to put 21 words in your mouth. 22 A. Is now the Director of Client Services, 23 and he is a registered attorney, licensed 24 attorney, but he does not practice law. 25 Q. Go ahead.</p>

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<p style="text-align: right;">Page 53</p> <p>1 M. Savage 2 A. He's a real smart guy, and so he's in 3 charge of Client Services and he oversees the 4 account executives. Again, the account 5 executives are assigned to every client right 6 after they join as their point of contact. We've 7 been doing that for about a year now, a little 8 over a year, and we found it very effective with 9 our clients. It eliminates the complaint I'm 10 confused, I don't know where to call, do I call 11 the original sales rep, which is not as effective 12 as calling an accountant. 13 And another thing that we've done is 14 we've -- this account executive will help bring 15 the sales rep, you know, from that discussion 16 when the client comes on board to the actual 17 accountant. What we were doing, we were setting 18 up an appointment the next day with an 19 accounting. We call it the accounting assistance 20 appointment, and so now we set that up five days 21 later. The very next day is with the account 22 executive with the sales rep on the phone and the 23 accountant and it's more of a transition from 24 instead of the sales, typically, you know, higher 25 energy, more personality than the accountant,</p>	<p style="text-align: right;">Page 55</p> <p>1 M. Savage 2 know, often. Each zone is in charge of training 3 their -- of, you know, training their -- each 4 member of the zone. 5 Q. What do they train them to do? 6 A. Tax preparation, general accounting, a 7 lot of compliance. IRS has a lot of compliance 8 as far as what tax preparer's, you know, the 9 duties of a tax preparer to keep us from getting 10 in, you know, in trouble with the IRS. 11 Q. Who does the trainings? 12 A. The CPAs, the zone managers or Gary, but 13 we also do external trainings, seminars. IRS has 14 seminars that we send out employees to, and 15 there's refresher courses for the CPA exam or the 16 enrolled agent exam. 17 Q. Other than the small claims lawsuits 18 against The Tax Club for what you mentioned, 19 refund issues, has Tax Club and/or Manhattan 20 Professional Group ever been in litigation? 21 A. Yes. 22 Q. Can you talk about that? 23 A. We had a lawsuit with a former employee 24 who said that, you know, we owed her some 25 overtime. She was the director of HR, and that</p>
<p style="text-align: right;">Page 54</p> <p>1 M. Savage 2 unfortunately. I'm an accountant. We're not as 3 gregarious maybe as the sales. That is our sales 4 department. So our clients were here, 5 emotionally here, perhaps. The account executive 6 is really working as a liaison with the client 7 and our services. Our refunds have gone down. 8 Our client complaints have gone down and we're 9 constantly tweaking and adjusting to our process. 10 You know, we do a lot of volume. 11 Q. While we're on this operations and the 12 various people that are on this page three of 13 Exhibit-5, is there training for the various 14 tiers of employees that you mentioned in your 15 testimony? 16 A. Absolutely. 17 Q. Is it internal training or -- 18 A. Both. 19 Q. The company trains them or do you send 20 them out? 21 A. We have the -- both, but primarily 22 internal training. From a -- we're still talking 23 about fulfillment. We do a lot of training for 24 sales as well, a lot, but we do -- we have 25 meetings, training meetings daily, weekly, you</p>	<p style="text-align: right;">Page 56</p> <p>1 M. Savage 2 we owed her overtime pay, and our attorneys at 3 the time, this is before Joe, advised us to 4 settle, so there's that. 5 We've had other clients that -- it's 6 really not that much. He would know. 7 Q. He's not testifying. 8 A. Okay, all right, but there's not that 9 much. 10 Q. It's good to know that he would know. 11 A. I would say there's maybe three cases, 12 and we're currently in litigation with a company 13 that -- I'm just trying to think if there's 14 anything else. Currently in litigation with a 15 company that had stolen some of our data, but 16 we're the plaintiff on that. 17 Q. What's the name of the company? 18 A. Precision. I'm trying to think if 19 there's anything else. Joe is probably saying -- 20 but I can't think of anything. 21 Q. That's fine. Again, this is your 22 memory, your testimony. 23 A. Right. 24 Q. So let's continue to go through sort 25 of -- I'm not sure if we're done and I'm in no</p>

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<p style="text-align: right;">Page 57</p> <p>1 M. Savage 2 way rushing you. I want to continue to go 3 through sort of the various tiers of employees 4 and the various divisions of The Tax 5 Club/Manhattan Professional Group, and let's also 6 let the record reflect, if that's okay with you, 7 Mr. Savage, that when we say "The Tax Club," we 8 mean Manhattan Professional Group as well, unless 9 we specify otherwise, if that's all right with 10 you, since you say that they're owned by the same 11 person?</p> <p>12 A. Absolutely.</p> <p>13 So Preston Clark, he's in charge of 14 Client Services as a Vice President, and he 15 oversees the account executives.</p> <p>16 And then Luke Kennedy, he is in charge 17 of operations for -- he's the Director of 18 Operations and his primary focus would be other 19 products that we sell. Other core products are 20 tax preparation, tax consulting, tax planning, 21 assistance in entity formations, bookkeeping, you 22 know, general accounting -- preparation of 23 financial statements, payroll services and 24 business plans, but we have other products. 25 We'll get into later, I'm assuming, and Luke</p>	<p style="text-align: right;">Page 59</p> <p>1 M. Savage 2 businesses, meaning set up an LLC and write-off 3 your personal expenses through the LLC or say 4 it's a business and it's not really a business. 5 A deduction has to be ordinary and necessary, 6 according to the IRS, and it has to be -- you 7 know, there's a nine-step process the IRS uses 8 when they determine whether a business is 9 actually a business or if it's a hobby, and we 10 don't have any ownership in any companies that 11 provide opportunities. We don't own -- we don't 12 promote business opportunities. When the client 13 comes to us, they already have a business. They 14 have a business ID. They're an entrepreneur or 15 they own properties or they own a web site that 16 they sell things on or whatever. They're an 17 actual business when we get them, and when the 18 IRS found that out, that gave them a lot of 19 comfort that we weren't promoting businesses just 20 for tax purposes. They gave us a letter and 21 discontinued their investigation. They were 22 comfortable with that.</p> <p>23 Q. What year is that?</p> <p>24 A. 2007. It's either '06, '07, '08, 25 somewhere in the middle. They essentially said</p>
<p style="text-align: right;">Page 58</p> <p>1 M. Savage 2 Kennedy is in charge of the fulfillment of such 3 products, so he makes sure that -- in other 4 words, he makes sure that when a client buys 5 something they get it, and Preston makes sure 6 that when they get it -- so Luke makes sure that 7 when a client buys something they get exactly 8 what they bought. Preston makes sure that the 9 client is happy with what they bought, and from a 10 tax perspective, Joe makes sure that the IRS is 11 very comfortable with the way we prepare taxes, 12 and if I could just say one thing about that. 13 We're very conservative in our tax 14 preparation practices. We don't over -- we don't 15 expense startup costs. We amortize them over 16 five plus years. We don't prepare aggressive tax 17 returns. The IRS did perform an investigation on 18 us, and I could talk about that later, now, 19 whenever.</p> <p>20 Q. Since you mention it, go ahead.</p> <p>21 A. There is certain, you know, sections of 22 the IRS code where they explain what you can and 23 cannot do as a tax preparation company. 24 Primarily, you can't offer -- you can't promote 25 what they call tax shelters in the form of fake</p>	<p style="text-align: right;">Page 60</p> <p>1 M. Savage 2 that they were interested in how we grew so fast. 3 We went from zero to 100 miles an hour in two 4 years, and they thought that there might be 5 something up. It was -- it was comforting to 6 know that they approved of our processes and 7 our --</p> <p>8 Q. For tax preparation?</p> <p>9 A. For tax preparation. And, you know, we 10 signed all the tax returns. We're very 11 compliant, and, again, we amortize our startup 12 costs and we hope the businesses are going to be 13 thriving businesses.</p> <p>14 If you have any questions, I know there 15 is a lot more there, so --</p> <p>16 Q. Go ahead.</p> <p>17 A. Another thing that Luke is in charge of, 18 this is very important, we call it Compliance. 19 It's -- we call it Sales Compliance internally, 20 but essentially what it is is sales verification. 21 Every single sale that is made, and you probably 22 saw this as you were going through our stuff, 23 every single sale that's made it goes through a 24 sales verification process, meaning after the 25 client takes out their credit card, we're talking</p>

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<p style="text-align: right;">Page 61</p> <p>1 M. Savage 2 about a telephone call, takes out their credit 3 card, gives us their credit card number and it 4 gets transferred to our verification department 5 and then it goes over the credit card 6 information, the billing information with the 7 client, verifies exactly what they're getting, 8 tells them again what they're getting, verifies 9 again billing address, credit card information, 10 CVV number, and some more stuff. I mean, 11 there's -- you know, you guys have seen it, what 12 we call compliance scripts. It's a sales 13 verification script, and they go through several 14 things at that stage, and then that file -- 15 everything is recorded. All of our phone calls 16 are recorded, but the verification record then 17 gets attached in our database, our CRM, Customer 18 Relations Management system, whatever. Once that 19 MP3 is attached, then the sale is eligible to be 20 batched at night, to be processed. Without that 21 verification the sale won't go through.</p> <p>22 Q. Is that an internal mechanism that you 23 have or is that put on -- is that a requirement 24 put on you by an outside agency?</p> <p>25 A. Internal. Internal. And so Luke is in</p>	<p style="text-align: right;">Page 63</p> <p>1 M. Savage 2 are times where it's hard to get a hold of a 3 client, so we get that process immediately 4 started. That is one area of internal 5 regulation. 6 We also have a monitoring department 7 which is very important to mention. It's out of 8 Utah so it's a completely separate division. 9 Approximately six to 10 monitoring reps monitor 10 every single sales rep at least two times a week. 11 Q. When you say "monitor," can you get into 12 that -- 13 A. They listen to the entire call. 14 Q. They listen to one call? How do they 15 pick the call to listen to? 16 A. What they'll do is they'll pick at 17 random two sales calls, longer calls, that 18 resulted in sales. From a sales rep's -- from -- 19 two calls for each sales rep every week. Then we 20 have an extensive list of do's and don'ts that 21 our sales reps cannot say. They would be 22 disciplined or fired if they violate our policies 23 that they've signed, and they get weekly 24 trainings on that, and every week the monitoring 25 department puts on a webinar, internal webinar</p>
<p style="text-align: right;">Page 62</p> <p>1 M. Savage 2 charge. It's a separate office. It's not 3 commingled with the sales guy, with the sales 4 reps at all, and Luke is in charge of that. He 5 oversees the operations of that. 6 Q. So I don't want to put words in your 7 mouth, but a separate group of people other than 8 sales folks -- 9 A. Oh, yes. 10 Q. What is word you used? 11 A. Verifying. 12 Q. -- are verifying, thank you, the sales? 13 A. Yes, with the client, reiterating, and 14 in some cases even starting with the fulfillment 15 process if the product is applicable to -- like 16 if it's an entity registration, they might say 17 have you thought about different names for your 18 company, and they start that process immediately. 19 Q. So they are not just compliance folks, 20 do they wear other hats? 21 A. They're only compliance, only 22 verification. They're not customer service. 23 They're not fulfillment, but they will start the 24 process so the client is engaged. You know, in 25 telesales you often -- not oftentimes, but there</p>	<p style="text-align: right;">Page 64</p> <p>1 M. Savage 2 training for all of our sales reps, and in that 3 webinar they discuss issues that they have 4 whether they're coming across or, you know, if a 5 sales rep is veering off the, you know, the 6 path, and what I mean by that is, you know, if a 7 particular sales rep is getting too pushy, not 8 being as -- you know, monitoring their sales 9 behavior. 10 Q. These people in Utah who are monitoring, 11 what is their training? 12 A. They all have training in either the 13 telemarketing world, telemarketing training, 14 telemarketing experience. The guy that is in 15 charge of it, Jason Baum, B-A-U-M, he has 20 plus 16 years of telemarketing compliance. He's very 17 familiar with telemarketing law, as is Joe, and 18 him and -- Joe and Jason, they meet frequently. 19 Joe -- 20 Q. But Jason is in Utah? 21 A. Yes. They meet and -- you know, 22 frequently in person and also they have weekly 23 phone meetings, conference calls to discuss 24 legalities of telemarketing laws to make sure 25 that we are complying. Joe, if I could brag, he</p>

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<p style="text-align: right;">Page 65</p> <p>1 M. Savage 2 wrote -- 3 Q. Let the record reflect that "Joe" means 4 counsel, Joe Sanscrainte, who is seated with us. 5 A. He wrote all the self-governance laws 6 for the ATA, the American Teleservices of 7 America, the ATA, and so he's also a specialist 8 in telemarketing law. Okay? So the monitoring 9 department, they also review -- not only do they 10 review, when I say "review," monitor the entire 11 phone call of the sales reps twice a week, they 12 also review every phone call that -- in which a 13 client calls to cancel. We have clients call and 14 say "I didn't buy that" or "this isn't what I 15 thought it was." We review every single one of 16 those calls, so that's -- again, that is an 17 internal regulation. That's not an external 18 regulation. We have approximately -- you know, 19 close to 100 reps, sales reps, and, you know, we 20 do -- I think we do a fantastic job of keeping 21 our hands on exactly what they're saying, how 22 they're presenting their preparation and 23 training. 24 Q. We're moving into the sales, and that's 25 okay. I just want to be sure that we're -- we've</p>	<p style="text-align: right;">Page 67</p> <p>1 M. Savage 2 based on the tax perspectives of different 3 entities, but we stay -- the accountants will 4 give tax advice, yes, but not legal advice. 5 Q. Now I think we're mixing two things. 6 I'll jump around my outline as well. The first 7 person from The Tax Club to speak with a 8 potential client is who? 9 A. Either a sales rep or an appointment 10 setter. 11 Q. What's an "appointment setter"? 12 A. Appointment setter will call people up 13 and say "Are you interested in hearing a tax 14 presentation?" 15 Q. How are the potential clients chosen? 16 A. We have people who come to our -- 17 organically who come to our web site who signed 18 up for a consultation. We have consultation 19 sign-ups on different web sites of different 20 companies that we don't own or, you know, have 21 any ownership interest in, meaning put in your 22 information here for a tax, you know, whatever, 23 presentation. We get what we call referrals. We 24 get referrals from certain partners, referral 25 partners we call them. No shared ownership but</p>
<p style="text-align: right;">Page 66</p> <p>1 M. Savage 2 completed sort of operations and want to move 3 into the sales, and please feel free to go out of 4 order in the pages. Since we've been talking 5 extensively about sales or begun to, maybe we 6 want to move to that section and talk a little 7 bit about that or we could continue as we were 8 page by page. 9 A. Okay, we'll continue with page by page 10 because I feel like I'm going to leave some stuff 11 out. 12 Q. Are any Tax Club employees trained to 13 give any kind of legal advice? 14 A. No. 15 Q. Are they trained not to give legal 16 advice? 17 A. Yes. 18 Q. Can you elaborate on that a little bit? 19 A. Yes. Especially the sales reps, they 20 aren't to give any legal advice at all. That's a 21 fine on our fine sheet, as well as tax advice. 22 They are to stay away from tax advice, the actual 23 sales reps, but what we do is -- this is 24 specifically having to do with entity formations, 25 we give advice, the accountants will give advice</p>	<p style="text-align: right;">Page 68</p> <p>1 M. Savage 2 they will give us names of our -- of clients who 3 might be interested in some tax help, some entity 4 formation who are brand new business owners. Our 5 niche is really a brand new business owner. We 6 feel if we set them up the right way, it's not so 7 expensive, it's not so difficult to maintain 8 their books, prepare their taxes if they're 9 set-up the right way from the very beginning, so 10 I think part of the secret to our success is 11 we've really stayed within our niche of the new 12 business owner. We do some e-mail marketing but 13 primarily over the phone. 14 Q. How do you choose which companies you're 15 going to obtain potential customers from? 16 A. We'll take -- we'll -- you know, the 17 selection process is more, you know, we'll take 18 any entrepreneurial list or any brand new 19 business owner list that we can. Some have 20 better -- you know, some we have more success 21 with than others. Some are more pertinent than 22 others, you know, more effective. 23 Q. Are you familiar with the term "lead 24 source"? 25 A. Yes.</p>

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<p style="text-align: right;">Page 69</p> <p>1 M. Savage 2 Q. Can you describe what a "lead source" 3 is? 4 A. Lead source/referral partner I've used 5 interchangeably. A lead source would be someone 6 who sends over files of clients, either they've 7 referred them to us saying hey, you have to -- 8 you know, you should listen to The Tax Club, they 9 have some services that you could benefit from. 10 That would be a referral. Lead source would be 11 someone who just sends over leads that we call 12 and telemarket our services to, whether it be a 13 list of small business owners. You know, it 14 really varies. 15 Q. Are there any types of payment 16 arrangements between The Tax Club and these lead 17 source or referral partners? 18 A. Yes. 19 Q. Can you describe those payment 20 arrangements? 21 A. We do typically -- every lead source, 22 every referral partner has a different contract, 23 different arrangement, but typically we will do a 24 revenue share on the first products that we sell 25 the clients, which is pretty typical in the</p>	<p style="text-align: right;">Page 71</p> <p>1 M. Savage 2 Club information to these potential clients 3 before you contact them? 4 A. I'm trying to think if there's an 5 instance where there's an e-mail or -- I can't 6 think of anything. 7 Q. Do lead sources -- 8 A. I'm sorry, there is a situation where 9 sometimes they will say -- you know, they'll say, 10 hey, The Tax Club is going to call you about tax 11 services, incorporation services, business plans, 12 whatever, you know, the arrangement is, don't 13 worry, you know, they're not affiliated with us 14 but we know who they are and their services are 15 good. That happens, I guess, in some cases, but 16 it's not like, you know, we make them say that 17 or -- they'll just say that and -- so they don't 18 get -- so their clients, you know, don't say who 19 is calling me or who did you sell my name to or 20 things like that. 21 Q. Do you know, if you know, do the lead 22 sources tell potential customers that, you sort 23 of answered, that The Tax Club will be calling 24 them, is there -- 25 A. Some do. Some don't.</p>
<p style="text-align: right;">Page 70</p> <p>1 M. Savage 2 accounting world. You know, oftentimes you'll 3 get a lead where -- we'll do up to 30 percent and 4 sometimes 35 percent, which we'll share in that 5 initial revenue. I know that, you know, it's not 6 uncommon for CPA firms to pay 100 percent of the 7 first annual revenue for a client, so -- but we 8 rarely go over 30 percent. 9 Q. How do the names come to you? Are you 10 buying lists? Are you buying -- I would like you 11 to describe, please, how does that come about, 12 you know, once you've identified a referral 13 partner or lead source. 14 A. Well, two different ways. Again, every 15 referral partner and lead source is different. 16 Some will come over in a rep share model where we 17 don't buy the list, we will share in the revenue 18 of what we sell them. Some we'll buy, we'll say 19 okay, we'll give you \$10, you know, a lead. 20 MS. PROSPER: Would you like some water. 21 THE WITNESS: I'm fine. 22 A. So you either buy a lead or share in the 23 revenue. 24 Q. Do any of your lead sources or referral 25 partners as you describe them disseminate any Tax</p>	<p style="text-align: right;">Page 72</p> <p>1 M. Savage 2 Q. Do you give them any materials? Do 3 you -- I don't want to put words in your mouth 4 again. Do lead sources, for example, might they 5 have a video or -- I know some of that came in 6 the production. Before one of your sales reps 7 calls one of these potential clients, what have 8 they heard of The Tax Club and where did they get 9 that information? 10 A. I would say in some cases it's probably 11 pretty half and half. I would say half have 12 never heard of us, and I would say the other half 13 maybe we'll send out a warm-up e-mail. We'll 14 send out an e-mail saying who we are, that we're 15 going to be calling. That improves our 16 appointment setting ratios. People are more 17 familiar with us. You know, we'll -- again, a 18 warm-up e-mail. Some of our clients, I am 19 familiar that we have a video and it's, you know, 20 saying who we are, what we do. 21 Q. Where do they get the video? 22 A. I've never seen any videos. I just -- I 23 know that there's been a couple that have been 24 made and in case you've seen them or whatnot, I 25 know what you're referring to, it's not that</p>

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<p style="text-align: right;">Page 73</p> <p>1 M. Savage 2 prominent, and more likely than not it was 3 designed to, again, answer the question of who 4 are these guys, did you sell my name to these 5 people, why are you doing that. More for them, 6 not for us. 7 Q. More for them who? 8 A. More for the lead providers. 9 Q. Maybe I didn't -- maybe I asked it 10 already, and if I did, excuse me. 11 Are you providing the lead sources with 12 information about The Tax Club to pass along to 13 these potential folks? 14 A. Not that I know of. 15 Q. Do you know someone who could -- is it 16 more of a marketing thing or is it more -- would 17 someone in the marketing department know better? 18 A. Yes. 19 Q. Who might know? 20 A. Brendan Pack our Sales Manager. Again, 21 it would be an e-mail that -- warm-up e-mail. 22 Q. You're not sure yourself? 23 A. No. 24 Q. Who may have seen these videos and when? 25 A. He would. He would know, Brendan would</p>	<p style="text-align: right;">Page 75</p> <p>1 M. Savage 2 Q. Yes. 3 A. No, none of the major social media. 4 Q. So you don't advertise on social media 5 sites? 6 A. Oh, I don't -- we don't, but maybe some 7 referral partners might advertise, but I wouldn't 8 say that Facebook itself sends us any -- you 9 know, refers people to us. 10 Q. So we were reviewing lead sources, the 11 financial arrangements between them. How do you 12 rate employee performance? 13 A. We do an annual review modeled a lot 14 after what we did at PricewaterhouseCoopers. I 15 brought over a bunch of people that I worked with 16 at Pricewaterhouse as our company grew. I 17 recruited a bunch of people in the division that 18 I worked in, which was the fraud investigation 19 department, and so we applied the same type of, 20 you know, like the rating systems, promotions, 21 bonuses based on reviews. 22 Q. Are there other ways to get -- do you 23 have some people who are commissioned, who work 24 only on commission? 25 A. No one works strictly on commission, but</p>
<p style="text-align: right;">Page 74</p> <p>1 M. Savage 2 know. 3 Q. Okay, great. 4 Let's continue through -- and questions 5 will come up and we'll flip back and forth. 6 MR. SANSRAINTE: I'm sorry, could I get 7 a cup of water? 8 MS. PROSPER: In fact, why don't we take 9 a five-minute break. It's now 11:30, so 10 let's make take five or 10 minutes. 11 MR. SANSRAINTE: Sure. 12 (A recess was taken.) 13 Q. Okay, so we were going through -- I 14 can't remember the last question but -- 15 A. We were talking about sales 16 verification, monitoring department, some of the 17 training we do for our sales rep, and then we 18 decided, okay, should we get into sales or -- 19 Q. We were talking about referral partners, 20 lead sources. 21 Are any of your lead sources any social 22 media sites, do you know, or if you don't know, 23 who would know? 24 A. I would say no. Social media sites like 25 Facebook?</p>	<p style="text-align: right;">Page 76</p> <p>1 M. Savage 2 the sales reps are definitely -- I mean, both of 3 their income -- I would say the bulk, the better, 4 the more effective sales reps would be commission 5 based. 6 Q. So just briefly describe as we talk 7 about the different employees on the 8 organizational chart how folks are paid and if 9 there are incentives like commission or even 10 disincentives like penalties for certain 11 behaviors. You talked about reviews. What are 12 those reviews based on? 13 A. Strictly performance. An easy way to 14 look at it is to say okay, our office is divided 15 right down the middle. The south side of the -- 16 of our floor would be our sales department and 17 the north side would be our fulfillment 18 department. Fulfillment department is 19 compensated strictly on salaries. We've been 20 hiring as we've been growing. We pay, I think, 21 very well, very competitively. Based on their 22 reviews will determine whether or not they get a 23 bonus or a raise. That's how they're 24 incentivized, on how well they prepare tax 25 returns. Their direct supervisor will evaluate</p>

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<p style="text-align: right;">Page 77</p> <p>1 M. Savage 2 them. 3 Sales side, they are not only 4 compensated based on their sales performance, you 5 know, their typical sales job, but they're also 6 deincentivized if clients refund or cancel or 7 have -- we'll take commissions away if the client 8 is at all mislead. If they don't understand what 9 they bought, you know, when we discover by 10 monitoring the call that the call wasn't that 11 effective of a sales call, they didn't follow the 12 script, we will take commission away and we 13 withhold 10 percent of all comissionable sales to 14 offset refunds. We call that retention. And 15 every quarter we will give sales reps, you know, 16 whatever they have remaining in that 10 percent 17 pool of their -- the people that they brought -- 18 that they've sold that haven't cancelled or 19 refunded.</p> <p>20 Q. So those are the only two sort of 21 structures that you have for paying employees? 22 A. Yes. 23 Q. I know we're jumping back and forth, but 24 I'm not sure what's next on the operations chart. 25 A. We pretty much went through it.</p>	<p style="text-align: right;">Page 79</p> <p>1 M. Savage 2 earlier, that if a client calls to request a 3 refund those calls are also monitored -- 4 A. Absolutely. 5 Q. -- and reviewed? 6 A. Every complaint we get, you know, if we 7 get something, whether it be from the BBB or AG's 8 office, we will review all those calls and try 9 and figure out, you know, get to the root of the 10 dissatisfaction and change our processes 11 accordingly and our controls. I mean, my 12 previous, you know, employment was all based on 13 internal controls, evaluating internal controls. 14 I'm very comfortable, I'm good at implementing 15 internal controls. I'm good at monitoring them 16 and placing new ones in to fix a problem. 17 Q. Since we were just talking about 18 salaries, you described earlier like a penalty 19 structure? 20 A. Yes. 21 MS. PROSPER: These, again, were culled 22 from the production that you made to us. 23 Showing you an 11-page -- 11 pages which came 24 from the HR training, it was under additional 25 materials that I'll just call infractions and</p>
<p style="text-align: right;">Page 78</p> <p>1 M. Savage 2 Q. Are these next pages, would you say, 3 breakdowns of each? 4 A. Well, it looks as though we're getting 5 into product specific. Luke is Director of 6 Operations. Sharif is in charge of our sales 7 verification department/compliance department. 8 Q. He's located where? 9 A. New York. This is all New York. 10 Q. Because you mentioned a group of people 11 in Utah -- 12 A. Yes. 13 Q. -- who review the calls. 14 A. Monitor the calls. So Sharif is in 15 charge of verifying the sale, saying hey, 16 Mrs. Smith, this is exactly what you bought, this 17 is exactly what you're going to get, this is 18 your -- what's your credit card information, 19 what's your billing address, blah, blah, and then 20 in Utah Jason Baum is in charge of the monitoring 21 department which monitors all of our sales reps 22 every week to make sure that they're in 23 compliance. 24 Q. And then did you mention -- I'm not sure 25 again if this is in my head or you mentioned it</p>	<p style="text-align: right;">Page 80</p> <p>1 M. Savage 2 lists. You could call it something else, but 3 just for identification can we mark it, 4 please, as 6, AG Number 6? 5 (Whereupon, AG Exhibit-6, 11-page 6 document, was marked for identification, as 7 of this date by the Reporter.) 8 Q. Mr. Savage, I'm handing you what's been 9 marked as AG 6. 10 Are these documents things you 11 recognize? 12 A. Yes. 13 Q. What do you recognize them to be? 14 A. Our internal Do Not Call Policy, which 15 essentially is if a client says okay, don't call 16 me, you know, anymore, we put him on our do not 17 call list and -- or if they're, you know -- 18 that's one way they'll be put on the do not call 19 list, do not -- internal do not call list. They 20 opt into it. They're given that chance via 21 e-mail, and also if they're upset, they call in 22 and they had a bad experience, we'll put them on 23 our do not call list so it doesn't resurface, so 24 okay, they either opt in or we place them on the 25 do not call list.</p>

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<p>1 M. Savage</p> <p>2 Q. How do they opt in again? You send them</p> <p>3 an e-mail that says --</p> <p>4 A. Yes, if you don't want any sales calls,</p> <p>5 you don't have to have sales calls.</p> <p>6 Q. When do they get that e-mail?</p> <p>7 A. When they join.</p> <p>8 Q. When they join --</p> <p>9 A. When they join we send them a bunch of</p> <p>10 stuff electronically primarily where we send an</p> <p>11 agreement, you know, listing out all -- exactly</p> <p>12 what they bought and receipt and cancellation</p> <p>13 policy on it and opt out e-mail. You know, I</p> <p>14 don't know if we still do that, actually. I know</p> <p>15 we did it for quite some time.</p> <p>16 Q. Do you know who would know?</p> <p>17 A. Brendan Pack, but, anyway, so back to</p> <p>18 the do not call list. Either they instruct us to</p> <p>19 be placed on the do not call list or we will</p> <p>20 manually put them on if there -- if they've had</p> <p>21 an issue, and, again, the different lead</p> <p>22 providers have different arrangements. Some lead</p> <p>23 providers said, you know, you sell tax services</p> <p>24 only and because they might sell other stuff,</p> <p>25 maybe a competing product or whatnot, and so</p>	<p>1 M. Savage</p> <p>2 let's say they go to lunch with an accountant,</p> <p>3 okay, you know, I could get that -- that's never</p> <p>4 happened, to my knowledge, that would be the only</p> <p>5 way they could, and then they would get fined for</p> <p>6 calling a person on the list, or if it was a</p> <p>7 client that they had their previous number,</p> <p>8 again, I shouldn't assume how they would call</p> <p>9 them, but it is an infraction.</p> <p>10 Q. How do the infractions work? You get --</p> <p>11 in general, how do the infractions work?</p> <p>12 A. From the monitoring department, Jason</p> <p>13 Baum issues them.</p> <p>14 Q. Before we do that, can you review all</p> <p>15 the sheets so we could get it into evidence as</p> <p>16 you talk about them, please, and we'll get back</p> <p>17 to this but --</p> <p>18 A. Do Not Call Policy, the fine list, this</p> <p>19 is just another copy of this, yeah, another fine</p> <p>20 list. This is the one I'm familiar with, but</p> <p>21 it's exactly the same, infraction policy for</p> <p>22 monitoring. Okay, this would be our policy in</p> <p>23 which we would issue the infraction, dress code,</p> <p>24 sales training, infraction policy for employees,</p> <p>25 which I've never heard of anyone but a sales rep</p>
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<p>1 M. Savage</p> <p>2 there's a -- you know, let's say if it was tax</p> <p>3 services only, I'm thinking of one lead provider</p> <p>4 in particular, then we automatically place them</p> <p>5 on the do not call list, so I guess that would be</p> <p>6 the third way, if it was a contractual with the</p> <p>7 lead provider.</p> <p>8 Q. So you're saying a lead provider could</p> <p>9 refer a customer to you just for tax purposes?</p> <p>10 A. Ahuh.</p> <p>11 Q. And you would be sort of barred</p> <p>12 contractually from offering them anything besides</p> <p>13 tax services?</p> <p>14 A. One control is we place them on the do</p> <p>15 not call list. I mean, I'm just thinking of an</p> <p>16 example. It's a small percentage.</p> <p>17 Q. I understand. Go ahead. So there's a</p> <p>18 do not call list, so that's -- I'm not sure that</p> <p>19 that's a penalty structure, although it was in</p> <p>20 that same --</p> <p>21 A. It definitely is a penalty structure.</p> <p>22 Q. If someone calls?</p> <p>23 A. Oh, yes. I don't know how they would</p> <p>24 because the phone number will not show up in the</p> <p>25 system that the sales rep sees, our database, but</p>	<p>1 M. Savage</p> <p>2 being fined, and then some training information.</p> <p>3 MS. PROSPER: So I would like to now</p> <p>4 move what's been marked as AG 6 into</p> <p>5 evidence, please, and then we'll be</p> <p>6 discussing it.</p> <p>7 (Whereupon, AG Exhibit-6, as previously</p> <p>8 described, was marked in evidence, as of this</p> <p>9 date by the Reporter.)</p> <p>10 Q. Can you explain briefly the process for</p> <p>11 issuing an infraction, and if there's any</p> <p>12 financial penalty, how that -- you a little bit</p> <p>13 touched on it with the 10 percent withholding,</p> <p>14 but how that is paid by the employee, et cetera?</p> <p>15 A. It's unrelated to the 10 percent</p> <p>16 retention. 10 percent retention focuses strictly</p> <p>17 on refunds. The fine sheet, our infraction</p> <p>18 policy is taken right out of paycheck. If it's a</p> <p>19 \$500 fine, we reduce their paycheck by \$500.</p> <p>20 Q. Is there a process or procedure by which</p> <p>21 one is informed that there's an infraction?</p> <p>22 A. Yes.</p> <p>23 Q. Can you briefly explain that?</p> <p>24 A. Sure. Monitoring department, Jason</p> <p>25 Baum, will contact the particular team leader,</p>

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<p style="text-align: right;">Page 85</p> <p>1 M. Savage 2 the particular team manager and tell them -- on a 3 weekly basis, actually on a daily basis who gets 4 fined. The fine will be assessed on a weekly 5 basis but they're informed on a daily basis. 6 Typically one to two fines a week will actually 7 make it passed the -- okay, make it to that -- to 8 the week, meaning they're informed on a daily 9 basis, they're given an opportunity to explain 10 themselves or to discuss it. I would say three 11 out of 10 times the fine is reversed based on, 12 you know, more of an innocent until proven guilty 13 type model, and then on a weekly basis then 14 they'll, you know, they'll be assessed the fine 15 that they can't -- you know, if someone gets 16 fined twice for the same thing, then they get 17 fired. It's not that common. I mean, we don't 18 have any repeat offenders. We would get rid of 19 them.</p> <p>20 Q. What would be sort of the most common 21 way that an infraction comes to light?</p> <p>22 A. It always comes through our monitoring 23 department.</p> <p>24 Q. Always?</p> <p>25 A. Always. Sometimes there might be a</p>	<p style="text-align: right;">Page 87</p> <p>1 M. Savage 2 Q. Internal due process? 3 A. Internal. 4 Q. Just to finish up with the employees and 5 payment, by what means are your employees paid? 6 A. Via direct deposit, check. 7 Q. Are they paid on the same cycle? 8 A. Every two weeks, yes, every other 9 Friday.</p> <p>10 Q. Do you use a payroll company to do that? 11 A. ADP.</p> <p>12 Q. Do you earn a salary from The Tax Club? 13 A. Yes.</p> <p>14 Q. Is it a fixed salary or is it -- does it 15 fluctuate?</p> <p>16 A. It fluctuates based on revenue. I have 17 a salary plus a small commission.</p> <p>18 Q. Are you also paid biweekly?</p> <p>19 A. Yes.</p> <p>20 Q. What about the small commission?</p> <p>21 A. Yes, all in one check.</p> <p>22 Q. Right, but it comes biweekly?</p> <p>23 A. Yes.</p> <p>24 Q. Based on --</p> <p>25 A. Sales performance or company</p>
<p style="text-align: right;">Page 86</p> <p>1 M. Savage 2 cancelled -- a cancellation request. We then 3 monitor the call and then monitor decides whether 4 or not to fine that actual sales rep.</p> <p>5 Q. Then there's a back and forth process 6 where they get to sort of defend themselves?</p> <p>7 A. Yes.</p> <p>8 Q. And you said something about the end of 9 the week which I didn't understand, that when the 10 money is taken from paycheck or how does that --</p> <p>11 A. We get paid every two weeks, but what I 12 meant was -- I was just backing up the number one 13 to two fines actually go through a week.</p> <p>14 Q. I see.</p> <p>15 A. A week, every week we have one or two 16 fines.</p> <p>17 Q. Per --</p> <p>18 A. That go passed --</p> <p>19 Q. Per zone?</p> <p>20 A. No, no, per company.</p> <p>21 Q. Just in general?</p> <p>22 A. Yes, that go passed the arbitration or I 23 don't know --</p> <p>24 MR. MITCHELL: The due process?</p> <p>25 A. -- the due process.</p>	<p style="text-align: right;">Page 88</p> <p>1 M. Savage 2 performance.</p> <p>3 Q. For the two weeks before or --</p> <p>4 A. Yes.</p> <p>5 Q. And you are not a partner?</p> <p>6 A. Not an owner.</p> <p>7 Q. Not an owner?</p> <p>8 A. Ahuh.</p> <p>9 Q. You are a partner, is that what you're 10 saying?</p> <p>11 A. No, but the answer to your question, I 12 don't own any shares but I'm an officer.</p> <p>13 Q. Tell me your title again.</p> <p>14 A. President.</p> <p>15 Q. President, exactly, of course. How much 16 are you paid?</p> <p>17 A. \$104,000 a year is my salary and --</p> <p>18 Q. Commission?</p> <p>19 A. And my commission is two and a 20 half percent of revenue after refunds and 21 cancellations and --</p> <p>22 Q. We'll get into that a little bit later.</p> <p>23 Let's go and finish with the 24 organizational chart so we don't forget about it 25 or leave anything off.</p>

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<p style="text-align: right;">Page 89</p> <p>1 M. Savage 2 A. Sure. 3 Q. Now, I think earlier you testified that 4 the pages following -- as the pages go on they 5 sort of break things down a little bit further. 6 Why don't we go through and, again, if you feel 7 the need to elaborate, please do, because the 8 name Luke Kennedy is from another page, let's 9 just sort of go through -- so Luke Kennedy is 10 Director of Operations and under him -- 11 A. Compliance/Fulfillment Verification, 12 business plans, My Essential Plans is the name of 13 our brand. Sebastian who works with -- works 14 with the business plans and the -- in the 15 operation of business plans. 16 Q. Fulfillment; is that correct? 17 A. Fulfillment. And Julie Ramroop, Project 18 Coordinator. I don't really know what project 19 she's working on but -- and then the Database 20 Manager is -- that position is vacant at this 21 time, and then underneath Sharif in the 22 Compliance/Verification Department would be 23 our -- the actual compliance, the verification 24 reps and that's all they do. 25 Q. Right, okay. But they also gather some</p>	<p style="text-align: right;">Page 91</p> <p>1 M. Savage 2 Q. Who are? 3 A. They would be the equivalent of like a 4 paralegal for tax accountants. They gather 5 information and talk to clients. 6 Q. And your Corporate Department? 7 A. That would be the entity setting up the 8 entities. Maria is in charge and she has 9 Corporate Specialists, meaning, you know, people 10 who do the -- who package up -- print off the 11 incorporation papers by each state and send them 12 to the clients for them to sign. 13 Q. Packaging, okay. Maria Petrova, what 14 kind of educational background does she have? 15 A. I don't know. 16 Q. Do you know who would? 17 A. Yes. Joe Rush would know, but I could 18 find out for you today. 19 Q. Okay, so we're talking about tax 20 operations, Corporate Department, Maria Petrova 21 is Lead Specialist. 22 A. I don't know why it says that. That 23 doesn't make any sense to me. 24 Q. So maybe we'll get some elaboration on 25 that.</p>
<p style="text-align: right;">Page 90</p> <p>1 M. Savage 2 information you said, may gather some 3 information? 4 A. They may, ahuh. 5 Q. Okay. 6 A. And I know that we spoke pretty in depth 7 about the tax operations. Joe Rush also oversees 8 our Vital Payroll. We provide payroll services 9 for our clients, and then here are the different 10 zones based on -- so there's three zones. During 11 tax season, right now most likely there's four 12 zones. It's, you know, tax time is right now. 13 Q. Thanks for reminding me. 14 A. We get about 10,000 calls a month. 15 Q. Who do those calls go to? 16 A. Primarily to the accountants. 17 Q. Who are they from? 18 A. Clients. 19 Q. That are already existing clients? 20 A. Oh, yes, yes. Most of the calls in 21 are -- I would say 90 percent are existing 22 clients. 23 Q. Down at the bottom you have -- 24 A. Our tax accountants, our accountants and 25 EAs and tax analysts.</p>	<p style="text-align: right;">Page 92</p> <p>1 M. Savage 2 A. I think it could be a typo. I don't 3 know what "Lead Specialist" is. 4 Q. Can you tell me about the Corporate 5 Specialists and what kind of background they have 6 and what exactly they do? 7 A. From my understanding, 8 administrative/secretarial role in the sense of 9 communicating with clients and gathering 10 information and -- very administrative, data 11 entry. I would say their background would not 12 be -- it doesn't necessarily have to be -- I 13 don't know. I don't know what each individual 14 background is, but -- 15 Q. Would Joe Rush know? 16 A. Yes. 17 Q. You mentioned that they prepare the 18 incorporation papers. 19 A. Yes. They -- 20 Q. How do they do that? 21 A. They organize them. They will fill them 22 in. You know, very similar to, you know, 23 incorporation services like a Legal Zoom, if 24 you're familiar with them. 25 Q. A little bit.</p>

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<p>1 M. Savage</p> <p>2 A. They're a lead provider. They gather</p> <p>3 the information. You know, client will say okay,</p> <p>4 I want an LLC so they'll print off the LLC</p> <p>5 documentation per state and send it to them,</p> <p>6 client signs it.</p> <p>7 Q. Where do they get that stuff?</p> <p>8 A. Off the web site. Each state has, you</p> <p>9 know, a commerce web site that has all the forms,</p> <p>10 or the IRS, federal stuff comes off IRS. A lot</p> <p>11 of states do it electronically so you don't have</p> <p>12 to print out the forms.</p> <p>13 Q. What are they doing? What are -- I</p> <p>14 mean, maybe we could use an example, but if I</p> <p>15 wanted to incorporate a business in New York for</p> <p>16 selling Zabar's cups, I guess I want to know</p> <p>17 what's the thought process or what are they</p> <p>18 gathering, what are they spitting out, for lack</p> <p>19 of a better term, and where are they pulling that</p> <p>20 information from?</p> <p>21 A. Okay. It's important to clarify that</p> <p>22 they don't necessarily advise on what structure</p> <p>23 would be best.</p> <p>24 Q. Does someone do that?</p> <p>25 A. Accountants will. The accountants will</p>	<p>1 M. Savage</p> <p>2 A. They're sold a package, a membership,</p> <p>3 Tax Club membership which includes tax</p> <p>4 preparation, tax consulting, tax preparation for</p> <p>5 both corporate and individual tax returns,</p> <p>6 consulting.</p> <p>7 Q. What kind of consulting?</p> <p>8 A. Tax planning. This would be a better</p> <p>9 tax scenario for you, if you put that in an LLC,</p> <p>10 your taxes as an S Corp., this would be the net</p> <p>11 effect on your tax return.</p> <p>12 Q. How do they come to choose? With whom</p> <p>13 are they interfacing when they come to choose</p> <p>14 which --</p> <p>15 A. A sales rep. A sales rep won't get into</p> <p>16 that detail. A sales rep will say --</p> <p>17 Q. They won't or they shouldn't?</p> <p>18 A. Well, they shouldn't give specific tax</p> <p>19 advice. It's on the fine sheet.</p> <p>20 Q. Okay, the sales -- I just want to</p> <p>21 understand, and I'm going to break it down</p> <p>22 specifically.</p> <p>23 The sales rep is the person who sells</p> <p>24 them --</p> <p>25 A. Yes.</p>
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<p>1 M. Savage</p> <p>2 talk to the client. That's why we schedule that</p> <p>3 accounting assistance meeting immediately and the</p> <p>4 clients will talk to our -- our accountants will</p> <p>5 talk to the clients immediately and talk -- these</p> <p>6 are the tax effects of an S corporation,</p> <p>7 flow-through entity, this is the tax effects of</p> <p>8 an LLC taxed as a sole proprietorship or taxed as</p> <p>9 a partnership. What would you like to do?</p> <p>10 Q. Who is the first Tax Club employee -- I</p> <p>11 may have asked this already. Sorry if I did.</p> <p>12 Who reaches out to the potential</p> <p>13 customer?</p> <p>14 A. After the sales verification process we</p> <p>15 set up a bunch of appointments and the first</p> <p>16 appointment is with the account executive.</p> <p>17 Q. Maybe we need to get into sales first.</p> <p>18 What are they sold at that first I guess -- you</p> <p>19 know, I mean, this is the very next category.</p> <p>20 What are they sold at that first sales call?</p> <p>21 What information is exchanged? I mean, we want</p> <p>22 to break it down, but that's kind of the gist of</p> <p>23 my question, because you're talking about</p> <p>24 fulfillment of a sale that's already made, so</p> <p>25 what are they sold?</p>	<p>1 M. Savage</p> <p>2 Q. -- the membership? As part of the</p> <p>3 membership are they getting an incorporation?</p> <p>4 A. Ahuh.</p> <p>5 Q. Who chooses or decides what</p> <p>6 incorporation is sold to them?</p> <p>7 A. Well, what -- what we call</p> <p>8 "incorporation" is -- includes an LLC, it might</p> <p>9 be an LLC, it might be an S Corp., it might be a</p> <p>10 limited family trust, not family trust, a family</p> <p>11 limited partnership or a C corporation. That's</p> <p>12 not determined at the point of sale.</p> <p>13 If I could put words in your mouth, is</p> <p>14 this what you're asking, what is presented to the</p> <p>15 client?</p> <p>16 Q. What are they sold? What is pitched to</p> <p>17 them at that initial sales call?</p> <p>18 A. They are presented with -- the client is</p> <p>19 presented with a Tax Club membership which --</p> <p>20 when they explain what a Tax Club membership is,</p> <p>21 they will say it is a membership that includes</p> <p>22 incorporation services, tax preparation for</p> <p>23 your -- for whatever corporate structure you</p> <p>24 decide to establish.</p> <p>25 Q. Let's stop there. The word "decide,"</p>

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<p style="text-align: right;">Page 97</p> <p>1 M. Savage 2 who is involved in the decision-making process as 3 to which corporate entity is chosen and when does 4 that take place? 5 A. With the accountant. 6 Q. So at the end of the sales call they've 7 purchased what? 8 A. They've purchased tax preparation, tax 9 consulting, unlimited access to a tax advisor 10 throughout the year, and the process of 11 incorporating. 12 Q. At the end of the call, before their 13 credit card is charged, do they know what 14 corporation they're going to -- 15 A. No. They might ask a question, and this 16 is speculative, what do most people do when -- 17 for properties? And, you know -- 18 Q. What is the salesperson -- 19 A. I mean, the salesperson might say "a lot 20 of our clients will form an LLC," but they're not 21 saying "form an LLC." 22 Q. Do the salespeople sort of run through 23 what options there are? 24 A. I don't know. 25 Q. Do you know who would know?</p>	<p style="text-align: right;">Page 99</p> <p>1 M. Savage 2 (Whereupon, AG Exhibit-7, Price lists, 3 was marked for identification, as of this 4 date by the Reporter.) 5 MS. PROSPER: And it's four stapled 6 together pages. 7 Q. Can you look at that and tell me if it's 8 something that's familiar to you? 9 A. Yes. 10 Q. What is that? 11 A. A description of products and price 12 points. 13 Q. What kinds of products are these and 14 here's -- I'll help you, are these the initial 15 products sold or is that a fair representation -- 16 A. Yes. 17 Q. -- of what this list represents -- 18 A. Yes. 19 Q. -- versus later products that might be 20 sold to a customer? 21 A. Yes. 22 Q. So there are a lot of things on the 23 list, and we don't have to go through each and 24 every one, but can you give me a sense of the 25 difference between some of these packages? First</p>
<p style="text-align: right;">Page 98</p> <p>1 M. Savage 2 A. Brendan Pack, as per the script. 3 Q. I'm glad you talked about scripts. What 4 we received in our -- in what you produced were 5 compliance scripts, at least I didn't see any 6 like sales scripts. I saw sort of outlines for 7 and I saw -- maybe I just didn't find them. 8 A. I'll get those to you right away. 9 Q. I'm interested in how the sales folks 10 are trained, what it is that they're supposed to 11 be pitching, like what you've entered already, 12 tax preparation services and membership, if you 13 could tell me a little bit about how the 14 membership works, like -- maybe I'll help you a 15 little bit, and pardon our very elementary 16 splicing together of this but it wouldn't fit on 17 legal and it wouldn't -- so what I've done here, 18 and you could -- if it's not accurate, please 19 tell me, is spliced together in pages of three, I 20 have four long sheets which are three and a half 21 by 11 sheets stapled together of what you gave us 22 as your incorporation packages, and so let's mark 23 this, please, as AG Number 7 I believe we're up 24 to, and it was called Price Lists in the 25 production.</p>	<p style="text-align: right;">Page 100</p> <p>1 M. Savage 2 of all, I want to know what -- can you give me 3 some of the names, if we could start with the 4 first two or three? 5 MS. PROSPER: Sorry. If this is 6 something you recognize, let's go ahead and 7 put it into evidence as AG 7 and then we'll 8 start talking about it. 9 (Whereupon, AG Exhibit-7, as previously 10 described, was marked in evidence, as of this 11 date by the Reporter.) 12 Q. So let's go down maybe the first three 13 or four and tell us the titles they have and if 14 you could sort of briefly describe the 15 differences between them and then sort of give me 16 a general overview of what other differences 17 there might be, other than the prices. 18 A. Okay. Corporation Document Package, 19 item number one, would be access to our E-tax 20 hotline, which is electronic access to 21 accountants to ask tax questions. 22 Q. When you say "electronic," is it like 23 one of those -- is it live? 24 A. E-mail. 25 Q. So you e-mail a question and then</p>

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<p style="text-align: right;">Page 101</p> <p>1 M. Savage 2 someone e-mails you back? 3 A. Yes, as opposed to calling. 4 Q. Or one of those -- what do you call that 5 when you live -- 6 A. Chat. 7 Q. -- live chats? 8 A. I think we have a chat here and there. 9 I know we do during tax season. 10 Corporation & Kit meaning the 11 corporation -- what we mean by this is it's -- it 12 doesn't necessarily have to be a corporation. It 13 could be an LLC or it could be, you know, a 14 limited liability partnership, but what we mean 15 by that is the corporation paperwork to file for 16 a corporation, and the kit is, you know, the seal 17 and the stock certificates, if applicable, you 18 know, generic operating agreement. 19 Q. And the salesperson, what are they 20 supposed to be -- 21 A. I mean -- 22 Q. Again, I don't want to assume things, 23 but I'm assuming that you want sort of higher 24 sales, and as I look down on this list, the 25 products get more expensive.</p>	<p style="text-align: right;">Page 103</p> <p>1 M. Savage 2 Q. So please explain that. 3 A. That's access to an accountant, access 4 to our members-only portion of our web site, but 5 yeah, it's part of being able to call in or in 6 the case of E-tax hotline, being able to e-mail 7 in year-round tax questions, so, for example, if 8 you're at a dealership and you want to know if 9 the SUV you want to buy is tax deductible, you 10 could call the accountant and say hey, is this 11 tax deductible? 12 Q. You pay that monthly membership fee for 13 how long? 14 A. For as long as you're current with your 15 membership. 16 Q. What does that mean? 17 A. Meaning as long as you don't cancel. 18 You could cancel at any time. 19 Q. I'm starting a Zabar's cup selling 20 business, I purchase one of your initial packages 21 and I pay a fee. Outside of that there's a 22 monthly fee to sort of maintain, is that the 23 correct word? 24 A. Right. 25 Q. The ability to contact The Tax Club with</p>
<p style="text-align: right;">Page 102</p> <p>1 M. Savage 2 Before we get into that, talk about 3 how -- what this POS Price? And then there's a 4 2nd Half, I'm not very good at reading upside 5 down, Monthly Price, Quarterly Price. 6 Before we get to the description, how is 7 that structured? How are people -- 8 A. Sure. Point of Sale Price, this would 9 be the most -- you know, basic -- this is how 10 much it costs, that's it. Half price would be 11 if -- some of our clients opt to have -- you 12 know, if they don't have, let's say, \$1,400 but 13 they really want the product and they have \$750, 14 we'll say you could pay us half the price later, 15 whether it's a month, two months or three months. 16 We'll put that into our system to automatically 17 bill them the second half price at a determined 18 time. 19 Q. At an agreed upon time? 20 A. Yes. Monthly is the monthly cost for -- 21 associated with our membership. 22 Q. Is that paid off at a certain time 23 frame? The monthly membership, is that like a 24 payment plan or -- 25 A. No.</p>	<p style="text-align: right;">Page 104</p> <p>1 M. Savage 2 tax related questions? 3 A. Yes. 4 Q. So also inside of that is my 5 understanding that there's an incorporation or 6 some kind of corporate structure that is built? 7 A. Corporate documentation will be 8 prepared, not necessarily associated with the 9 monthly though. 10 Q. Not associated with the monthly. So 11 would you say that that piece of it is a 12 one-time -- 13 A. Yes. 14 Q. I just want to get really specific here. 15 At the end of the sales call, when all 16 is said and done and you have the compliance 17 people come on, what have I bought? 18 A. Depending on your package, let's use a 19 basic package, you have bought tax preparation, 20 meaning we're going to prepare your taxes, sign 21 the return, you bought access to an accountant, 22 like the upfront fee I guess you could say, if 23 you want to associate the monthly with the access 24 and consulting, planning, and that's what we do 25 in the beginning, we'll do a tax plan, and in</p>

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<p style="text-align: right;">Page 105</p> <p>1 M. Savage 2 some cases, in some packages -- 3 Q. What is a tax plan based on? 4 A. Your current situation. Like you would 5 say okay, I have this business, I have that 6 business, I have this car that I use for the 7 business, I have these dependents, these kids, 8 you know, I got this, this and that and we'll say 9 okay, this is your plan, if you change this up, 10 this is would be your savings. 11 Q. When is the information gathered for 12 that tax plan? 13 A. In the beginning of the membership. 14 Q. What is to you the beginning of the 15 membership? 16 A. We set up -- we set the appointment up 17 immediately. Within five days we try and get the 18 process started, but I would say that it varies 19 depending on the client's responsiveness to the 20 questions we ask. You know, they might need to 21 go look up, you know, information as to like how 22 many brokerage accounts they have or what stocks 23 they've sold. There's a lot of variability, but 24 the back and forth probably will go on for six 25 months in an extreme case.</p>	<p style="text-align: right;">Page 107</p> <p>1 M. Savage 2 A. Well, you get an e-mail explaining 3 exactly what it is that you bought. "Tangible" 4 in the sense of physical -- I mean, we're selling 5 a service, so I would say nothing, you know, 6 physical. 7 MR. MITCHELL: Just to interject, let's 8 say she wants to start this business with the 9 cups, in selling the cups, she makes -- she 10 gets a phone call, correct, and just 11 reiterate, what is described to her by the 12 salesperson during that phone call 13 surrounding the services that she's expected 14 to get and the services surrounding the type 15 of corporation or entity to set up. 16 THE WITNESS: Okay, she's going to get a 17 phone call saying Tax Club membership, buy 18 this Tax Club membership and this is what the 19 membership is; it's access to an accountant 20 year round so if you have tax questions you 21 call in any time and get those questions 22 answered. It includes tax planning, initial 23 planning and also includes tax preparation, 24 you know, you give us the information in 25 order to prepare this 1120S for you, we sign</p>
<p style="text-align: right;">Page 106</p> <p>1 M. Savage 2 Q. Before -- 3 A. We try to get that done immediately. 4 Q. So the six months before the plan is 5 implemented? 6 A. No. We'll start giving them -- we'll 7 give them plans based on the information they 8 provide us immediately. You know, a lot of trial 9 and error. We've -- clients get upset saying 10 hey, I bought this plan, where's my plan? Well, 11 you haven't given us your information. Well, 12 when they provide us basic information we say 13 this is where you're at, but if you give us this 14 X information, it will get more comprehensive. 15 Q. At what point is a discussion had about 16 how to incorporate, what entity to choose? 17 A. That happens with the accountant. 18 Q. That happens approximately how many days 19 afterwards? 20 A. That process would start five days 21 afterwards with the accounting assistance 22 appointment. 23 Q. So at the end of my call when I turn 24 over my credit card information, do I get 25 anything tangible right away?</p>	<p style="text-align: right;">Page 108</p> <p>1 M. Savage 2 it, we'll either E-file it, send it to you, 3 you could sign it and send it in or -- and 4 then the monthly -- and an incorporation, we 5 will prepare the documentation. For example, 6 anyone can incorporate. I don't even do it 7 myself. If I want to incorporate, I usually 8 go to legalzoom.com and they'll -- you know, 9 I'll just fill in the -- fill out the survey 10 and they'll spit me out the forms that I 11 print out, sign, send off and send the state 12 filing fees for, so we'll provide that 13 process, and -- but we don't pay -- the 14 prices, the initial price does not include 15 the state filing fees. We don't pay state 16 filing fees on behalf of the clients. 17 So you're selling cups, you get the -- 18 you know, judscups.com, whatever LLC or S 19 Corp., Inc., whatever you decide. 20 BY MS. PROSPER: 21 Q. I'm sorry, I will decide that 22 approximately five days later with an accountant? 23 That's not decided at the time of the sales call. 24 I have not chosen yet whether I want to be an LLC 25 or S Corp.</p>

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<p style="text-align: right;">Page 109</p> <p>1 M. Savage 2 A. Sometimes. Depends. 3 Q. How does that process work? You're 4 calling me because I went to cups.com and found 5 Zabar's cups. You know, I think they're going to 6 sell, so you obtain my name by one of the means 7 we talked about earlier, the lead source 8 referral, you call me and say hey, we've got 9 great tax preparation services. At some point do 10 you ask me whether I'm already incorporated or -- 11 I mean, what information is gathered -- I mean, 12 obviously, you know, we've heard sales calls 13 because they were sent to us. What information 14 is gathered during that sales call? How is that 15 information manipulated to come up with a 16 solution for me? What questions am I asked in 17 that initial sales call? 18 A. I would say every sales call is 19 different and -- 20 Q. How about what questions do you expect 21 sales folks to ask? 22 A. I would expect them to say have you 23 thought about incorporating your business, have 24 you thought about, you know, getting a web site, 25 have you thought about, you know, office -- home</p>	<p style="text-align: right;">Page 111</p> <p>1 M. Savage 2 preparing any of the incorporation documents 3 whatsoever. I know that for a fact. 4 Q. So they're not preparing them, but are 5 they helping the customer choose which type of 6 incorporation they may want to affiliate their 7 company with? 8 A. Are they? Again, I can't speak of a 9 particular situation, and I know that, you know, 10 we have thousands of calls a week and I don't 11 know exactly -- they're not supposed to -- 12 they're not supposed to give legal advice. 13 Q. So let's elaborate on that. So are you 14 saying that to choose between which corporate 15 entity to incorporate is legal advice? 16 A. I would say in some cases. 17 Q. So at the end of my call when I turn 18 over my credit card, I have -- you spoke of it 19 earlier, three days or 15 days depending on -- so 20 right now what I bought is the ability to call in 21 really, it's almost virtual? 22 A. It's a service. 23 Q. It's a service, and I have three days to 24 decide on a refund? 25 A. Ahuh.</p>
<p style="text-align: right;">Page 110</p> <p>1 M. Savage 2 office deductions? These are all things that our 3 accountants will be able to help you out with but 4 things that you'll need. 5 Q. At the end of my call, and I'm going to 6 jump ahead to some other things, at the end of 7 our call when I've purchased one of these 8 packages and he reviewed what's in it, let's say 9 the basic one, so I expect to pay my monthly dues 10 and be able to call in at any time from the car 11 dealership, from the restaurant or my cruise, are 12 the salespeople supposed to give sort of 13 scenarios of different ways I might be able to 14 incorporate or are the salespeople -- do the 15 salespeople have a list of the different types of 16 incorporations, are they comparing and 17 contrasting the different corporations to the 18 sales -- to this potential customer? 19 A. I can't speak to exactly what any 20 particular sales rep has said. There are 21 scenarios that I could see would be appropriate 22 to say this is what -- this is how someone is 23 incorporated, this is how -- these are the 24 differences, maybe, but I would assume or hope 25 that -- I know that the sales reps are not</p>	<p style="text-align: right;">Page 112</p> <p>1 M. Savage 2 Q. In those three days, do I have any 3 basis, other than oh my, I just spent so much 4 money to -- have I received any service or is 5 there anything tangibly that I could say this is 6 done terribly and very poorly, I would like my 7 money back, is there something that's given 8 service wise or tangible to the customer, the new 9 customer within that time frame? 10 A. I would say in some situations, yes. 11 Q. Something like what? 12 A. We've had clients come aboard who were 13 getting audited and within, you know, a very 14 short period of time immediately we will gather 15 their information, help them with the audit, call 16 the IRS on their behalf and in that situation I 17 would say the client would be very happy. 18 Q. And that's not a client whom you have 19 solicited to purchase something? 20 A. It could be. 21 Q. So someone who you call may say oh, I'm 22 so glad you called, I'm not trying -- this is 23 just me, I'm so glad you called, I just got a 24 letter from the IRS last week that I'm being 25 audited so let's get started on this?</p>

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<p style="text-align: right;">Page 113</p> <p>1 M. Savage 2 A. I'm sure a sales rep would be happy to 3 get that call. 4 Q. I bet they would. 5 In this window time, you know, three-day 6 or 15-day window, what is -- what may I have in 7 front of me, what might I have in front of me 8 after paying for the service to evaluate whether 9 or not I'm getting my monies worth or whether I 10 want to continue? 11 A. Well, you get -- it varies by product. 12 We're specifically speaking about this product. 13 You get access to an accountant, means you could 14 start calling immediately. 15 Q. What if I don't have any questions in 16 the first three days? 17 A. I guess what -- the consideration that 18 you're getting -- that you're getting immediately 19 would be, you know, the access is one. 20 Q. The ability? 21 A. Yes. We immediately start with the 22 documentation preparation for the entity. 23 Q. "Immediately," elaborate on that, 24 please. 25 A. I would say the very next day it's in</p>	<p style="text-align: right;">Page 115</p> <p>1 M. Savage 2 what you're getting is obviously beyond the 3 access to, you know, the services, you're getting 4 an EIN number, which, you know, maybe to you and 5 I it's easy to go on the IRS web site and obtain 6 but to a lot of our clients I think they 7 appreciate the guidance from people who have done 8 thousands and thousands of them, and in some 9 cases you'll get access to -- immediately access 10 to our members-only section of our web site which 11 has a ton of information on starting a small 12 business. In some of these packages you'll get 13 money management guide, start-up guide. 14 Q. Is some of that -- I'm glad you 15 mentioned that, the access. 16 A. Immediately. 17 Q. Could I find on the web site some 18 information about what kind of business I want to 19 incorporate as? Is there a guide of some kind on 20 the web site? 21 A. Not that I know of. 22 Q. Do you know who would know? 23 A. I would. Tom, but Gary would know, Gary 24 Milkwick. 25 Q. I guess what I'm -- we're going back and</p>
<p style="text-align: right;">Page 114</p> <p>1 M. Savage 2 process. 3 Q. What's in process? 4 A. The incorporation paperwork, 5 discussions. 6 Q. I really want to clarify this point. If 7 the decision is not made but with the accountant 8 five days later, what is in process? 9 A. We'll get an EIN number immediately, 10 that's electronic. I think we get that within 11 three days. 12 Q. And an EIN number is -- 13 A. Employer Identification Number. 14 Q. What does that get me? 15 A. The incorporation process, so you're 16 incorporated. 17 Q. Incorporated as what? I'm just a 18 corporation? 19 A. Yes. 20 Q. And so you mentioned the paperwork is 21 starting immediately. What paperwork is starting 22 immediately and when do I get it? 23 A. Well, some states are paperless so 24 there's -- in some situations you never get 25 anything tangible or physical necessarily, but</p>	<p style="text-align: right;">Page 116</p> <p>1 M. Savage 2 forth because I'm a little bit confused. Now 3 that I've handed over my money, I have the 4 access, that piece I understand. I get an EIN 5 which I'm not really quite sure what the EIN gets 6 me in terms of -- I mean, does it hold a 7 corporate name? What does the EIN do? 8 A. Yes. It gets your corporate name. When 9 you incorporate, you incorporate federally and 10 locally with the state. It takes care of the 11 federal incorporation and in some cases with a 12 state -- I don't which states are completely 13 electronic, but, in other words, within three 14 days, yes, there are situations where you could 15 be fully incorporated. 16 Q. How does that full incorporation occur 17 within three days if I haven't spoken to an 18 accountant yet, like how would that scenario 19 occur? 20 A. I don't know. 21 MR. MITCHELL: Then, again, just to 22 piggyback, you don't know if it's a Y Corp. 23 or S Corp. or LLC? 24 THE WITNESS: In some cases. 25 MR. MITCHELL: You get an EIN number and</p>

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<p style="text-align: right;">Page 117</p> <p>1 M. Savage 2 it starts the incorporation process? 3 THE WITNESS: Yes. 4 MR. MITCHELL: And we are not sure from 5 what point from there do we become 6 incorporated by way of an LLC, S Corp., and 7 the decision that is made, is that made with 8 an accountant, how much time after the EIN 9 number is given do we make a call, does the 10 accountant call us or e-mail us? How does 11 that process work?</p> <p>12 THE WITNESS: Right, in some cases, and 13 I would say probably close to half, I think 14 this is an important point, is that clients 15 will know what entity they want and they'll 16 insist on an entity. You know, they'll say I 17 want an LLC, we're not going to talk them out 18 of it. In cases of that, I think it's a 19 little bit more clear-cut, but, you know, 20 when people say yes to the access to a 21 specialist, we have to make sure that 22 specialist is staffed. We have to make sure 23 they're available. We have to make sure that 24 they're there to make the appointment, and, 25 like we said earlier, they're expensive. We</p>	<p style="text-align: right;">Page 119</p> <p>1 M. Savage 2 don't want to put words in your mouth, they're 3 more form based or are they more specific to the 4 client? You mentioned earlier -- I always like 5 to take off from where you mention something. 6 You mentioned earlier that you go to the 50 7 Secretary of State web sites and pull documents 8 from there. Are there other sources from where 9 you might pull documents --</p> <p>10 A. No.</p> <p>11 Q. -- to create an entity?</p> <p>12 Again, I'm interested in the 13 decision-making process of choosing. I just 14 bought, however I did, from one of your lead 15 sources this cup franchise and you call me and 16 this is sort of all virtual and hypothetical, I 17 don't know that you're calling, I don't know what 18 services you're going to offer me, I am, let's 19 say, just selling them out of my garage, I'm not 20 thinking about liability or incorporating 21 necessarily. In the sales pitch, you know, what 22 if I don't need incorporation or what if I don't 23 want incorporation or what if -- not to ask so 24 many questions, but I'm just trying to get us to 25 think a little bit, what if I'm already</p>
<p style="text-align: right;">Page 118</p> <p>1 M. Savage 2 pay our accountants a lot, and so that's why 3 we have -- you know, we'll get people their 4 money back up to 15 days if they're unhappy 5 with the services regardless of how much 6 they've actually used us.</p> <p>7 BY MS. PROSPER: 8 Q. Now, I mean, 85 percent they'll get 9 their money back within 15 days? 10 A. Ahuh. 11 Q. Even if you've already produced the 12 incorporation papers for them? 13 A. Yes, even if we prepared tax returns for 14 them. 15 Q. Within 15 days they get 85 percent? 16 A. Yes. 17 Q. It's not based on use, that's the 18 question that I have? 19 A. No. 20 Q. This is probably a good time. What 21 kinds of corporate structures can The Tax Club 22 help a client form? 23 A. Anything, trust, anything from a sole 24 proprietorship to a trust. 25 Q. In creating these, would you say -- I</p>	<p style="text-align: right;">Page 120</p> <p>1 M. Savage 2 incorporated? 3 A. Which happens a lot, and in some cases, 4 you know, it's good to have separate corporations 5 for separate properties. I mean, on a 6 case-by-case basis there definitely would be 7 scenarios where one corporation is not enough. 8 We do get leads from a lead source Legal Zoom and 9 they already have corporations so we're just 10 selling tax preparation to them. 11 Q. You just said, right before you said 12 that there may be circumstances where one 13 corporation isn't enough. Who is involved in 14 helping me, the customer? I'm fine with my sole 15 proprietorship but someone is, for lack of a 16 better term, talking me into purchasing the 17 corporation, incorporation services, who is doing 18 that? 19 A. I could see a scenario where it would 20 not be deemed giving tax advice. 21 (A recess was taken.) 22 Q. So we were discussing sort of 23 expectations and outcome of this initial sales 24 call from The Tax Club to potential clients and 25 what the potential client has at the end of the</p>

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<p style="text-align: right;">Page 121</p> <p>1 M. Savage 2 sales call, whether tangible or service wise or 3 the potential to tap into services. 4 I just have a question. Is there a 5 process for deciding what will initially be 6 offered to what customer or are all customers 7 offered the same thing? 8 A. There's no process. 9 Q. So are salespeople trained to offer the 10 same product or the same series of products to 11 potential customers? 12 A. Yes. They're based on teams. The sales 13 teams are based on products and, you know, it 14 might be a variation of a Tax Club membership, it 15 might be tax -- it might be an incorporation kit 16 or not, might be preparation or not. A lot of 17 clients like to stay with their local CPA but 18 they want access. They like that access to the 19 tax hotline to be able to ask a lot -- there's a 20 lot of -- there's a lot of questions that new 21 business owners have when it comes to taxes, so 22 maybe that's all they want. 23 Q. You said that it's done by teams. Are 24 the sales, these initial calls by the 25 salesperson, are they selling anything other than</p>	<p style="text-align: right;">Page 123</p> <p>1 M. Savage 2 Q. What is a salesperson trained to do in 3 that case? 4 A. Trained to do? Not offer legal advice. 5 Q. Do they say something to the potential 6 customer? 7 A. I don't know. 8 Q. I mean, I don't know how intricately 9 familiar you are with the training that a 10 salesperson gets, and if you're not, then tell me 11 who actually -- 12 A. They are instructed to say that they are 13 not attorneys and they are not accountants and 14 they are to not give legal advice. 15 Q. Are they instructed to that say at the 16 onset, like don't ask me any legal questions or 17 only if a legal question would come up would they 18 be instructed to say that? 19 A. I don't know if it's before or after. 20 Q. Who would know, do you know? 21 A. Jason Baum. 22 Q. Who does the sales training? 23 A. Jason Baum. 24 Q. All of it himself? 25 A. No.</p>
<p style="text-align: right;">Page 122</p> <p>1 M. Savage 2 what's on the list, AG Exhibit-7? Are they 3 selling some of the other products that your 4 company sells, that Manhattan Professional Group 5 sells? 6 A. Initially? 7 Q. Initially, this first call. 8 A. In some instances, yes. 9 Q. In what instances? 10 A. A contractual agreement with a referral 11 partner who wants us to sell, I don't know, 12 business plan first. That's an example I could 13 think of. Not common. This is the vast, vast 14 majority of what is initially offered. 15 Q. What would happen if a potential 16 customer sought what you would consider legal 17 advice from a salesperson? 18 A. If they thought it was legal advice? 19 Q. Yes, if they had a question, if the 20 potential customer during the call had a legal 21 question and they don't know who they're talking 22 to, they say, hey, salesperson, answer me this 23 legal question, what is supposed to happen per 24 the training manner? 25 A. No legal advice.</p>	<p style="text-align: right;">Page 124</p> <p>1 M. Savage 2 Q. Who else? 3 A. He's in charge of monitoring so he'll do 4 a weekly sales training. Brendan Pack does sales 5 training and Preston Clark. 6 Q. Is that sales training for when 7 employees first come to work before they get on 8 the phone? 9 A. Yes. In fact, now we have -- they have 10 to take a test on our products before they could 11 sell them. We have all that information, all the 12 disclosures and agreements that they sign into 13 saying I won't do this, this and this. Every 14 sales rep has that. 15 Q. Every sales rep has that? 16 A. Yes. 17 Q. And how much training do the sales rep 18 get, like how many days? 19 A. At least once a week and probably on 20 average twice a week. 21 Q. I'm saying before they come on board, 22 before they start making phone calls, sales 23 calls. 24 A. There's a series of webinars, you know, 25 electronic training courses, as well as personal,</p>

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<p style="text-align: right;">Page 125</p> <p>1 M. Savage 2 you know, live training. How much they get? I 3 don't know. 4 Q. One of the two names you mentioned 5 earlier, the trainers would know how much they 6 get? 7 A. Yes. 8 Q. Are they paid during the training 9 period? 10 A. Yes. 11 Q. Do you know over what period of time the 12 training takes place? 13 A. Constantly in training. 14 Q. Before they get on the phone? 15 A. Initial training? 16 Q. Yes, initial training. 17 A. I do not know. 18 Q. And the same folks who do the training 19 would know? 20 A. Yes. 21 Q. Okay, what information are new customers 22 given regarding how to use the services that they 23 just purchased? For example, I think you 24 mentioned an e-mail. What are they -- is 25 generated right after they make the purchase?</p>	<p style="text-align: right;">Page 127</p> <p>1 M. Savage 2 the ones that don't? 3 A. We try to get them to sign it because it 4 helps us down the road. 5 Q. What is the E-agreement? What are they 6 agreeing to? 7 A. Agreeing to -- the description exactly 8 of what the package is that they bought, a 9 cancellation policy, refund policy. It's kind -- 10 it's a mode that we use to, you know, further 11 manage their expectation. This is what you got, 12 this is what's coming, these are your 13 appointments, this is who to talk to and whatnot. 14 Q. Can you explain those appointments, the 15 initial? Just explain to me when you say "these 16 are your appointments," what appointments are you 17 talking about? 18 A. Immediately set up within 24 hours 19 with -- 24, 48 hours with an account executive 20 who then understands the situation of the client 21 and gets them on the path of, you know, 22 incorporating and sets up -- we also set up an 23 accounting assistance appointment. We're 24 assuming that they buy a Tax Club membership 25 because they need The Tax Club, they need tax</p>
<p style="text-align: right;">Page 126</p> <p>1 M. Savage 2 Phone call ends, what do I have, what information 3 do I have for what I just purchased, how to use 4 it, how to tap into it? I have a burning 5 question right after I hang up the phone, what do 6 I do? 7 A. They are assigned an account executive 8 immediately. If they have a burning question, 9 they will be transferred to the account executive 10 to determine what their question is and what's 11 the best, you know, how to route that question to 12 their accountant, to there team. 13 Q. What if it's after I hung up, what if 14 have it tomorrow morning, what do I know at the 15 end of my call about how to access the services? 16 A. Right after the salesperson made and 17 verified, you get an agreement via e-mail stating 18 phone numbers, exactly how -- who to call in, 19 what to do in the event of a question, again, 20 reiterating what you bought, our cancellation 21 policy, and then the link for an E-agreement, 22 E-signature agreement where they sign exactly 23 stating what they bought, how much they bought it 24 for, and most of our clients sign that. 25 Q. Most of them sign it. What happens to</p>	<p style="text-align: right;">Page 128</p> <p>1 M. Savage 2 preparation, tax advice, so we get to an 3 accountant as soon as possible. 4 Q. Are there any other appointments that 5 are set up for them? 6 A. There are several appointments set up, 7 and I don't know every single one. 8 Q. What are they for? 9 A. I know -- okay, we, again, have account 10 executive appointment, we have accounting 11 assistance appointment. In some cases we have a 12 corporate specialist if they already know what 13 entity they want. There are -- there's a 14 bookkeeping appointment to evaluate their record 15 keeping system. 16 Q. I'm just going to backup a little bit 17 and then I'm going to follow up on what you said. 18 What method of payment does Tax Club 19 accept? 20 A. Credit cards, checks. 21 Q. How would you process a check over the 22 phone? 23 A. We don't process checks over the phone. 24 They mail them in. 25 Q. When does their membership start?</p>

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<p style="text-align: right;">Page 129</p> <p>1 M. Savage 2 A. As soon as we get payment. 3 Q. You talked about the compliance folks 4 coming in. Are the sales people on the line when 5 the compliance person comes on the line? 6 A. No, not in New York, maybe in Utah. 7 Q. So the salesperson is cutoff somehow 8 from the call? 9 A. It's transferred. 10 Q. It's transferred, and do they come back 11 to the salesperson? 12 A. Sometimes. If there like hey, you know, 13 they have -- they're not buying, they're not 14 going to -- actually, that's speculative, that's 15 not true. The compliance -- there are situations 16 where the compliance will transfer the client 17 back to the sales rep if they want to talk to the 18 sales rep or whatnot, but the compliance is 19 instructed if the client says no, they mean no. 20 Q. Does The Tax Club offer any financing 21 for customers who want their products or services 22 but don't have the money at the time? 23 A. Yes. 24 Q. Could you explain that? 25 A. Sure. We have a financing program where</p>	<p style="text-align: right;">Page 131</p> <p>1 M. Savage 2 A. Immediately. 3 Q. Do you have your own internal 4 collections in that case? 5 A. Yes, but we're not aggressive with our 6 collections at all. If someone doesn't pay, then 7 we cancel them. We cancel them out or we 8 don't -- you know, we'll talk to them, we'll try 9 to get another mode of payment, obviously, but 10 it's not -- yes, the answer to that question is 11 yes, we have our internal collections. Our 12 billing department does that. 13 Q. Does The Tax Club profit in any way over 14 and above the price of the product with the 15 financing? Is there interest? 16 A. Yes. 17 Q. So can you just briefly tell me the 18 terms, if they're the same or if they vary, why 19 they would vary? 20 A. They vary, and I believe them to be 21 12 percent three years. 22 Q. And three years to pay for the product 23 in full? 24 A. Yes. 25 Q. Do they vary by, let's say, credit</p>
<p style="text-align: right;">Page 130</p> <p>1 M. Savage 2 we have a minimum amount down. It varies by 3 product. 10 to 20 percent, let's say, and then a 4 monthly payment to finance the package. 5 Q. Does The Tax Club sort of finance it, I 6 might be using the wrong banking term, or is 7 there an outside credit company? 8 A. Both. 9 Q. Can you explain how -- when you finance 10 and when an outside company would finance? 11 A. We use a service called Divera 12 (phonetic). They're a loan servicing company, 13 but we also do it internal as well. 14 Q. Why would you use one over the other? 15 A. We're starting to go towards internal. 16 Because we're internally financing it, it's 17 not -- it's only our products and, you know, just 18 to save on fees. They charge a lot. 19 Q. So are you floating the customer? Are 20 they making payments? 21 A. They're making payments. 22 Q. Over time? 23 A. Ahuh. 24 Q. So at what point do they get access to 25 the services?</p>	<p style="text-align: right;">Page 132</p> <p>1 M. Savage 2 history or anything like that? 3 A. No. We accept everyone. 4 Q. Once a sale is final, that is to say 5 it's gone through the compliance process, you may 6 have answered this, but what happens right away? 7 A. What happens immediately? 8 Q. Yes. 9 A. Well, immediately they get -- again, 10 they get that -- they get the e-mail and the 11 agreement. They get access to the member-only 12 portion of the web site. They get access to an 13 accountant. Their appointments are set for them. 14 They get -- they get sent down the path of, you 15 know, the description of whatever the product is 16 that they bought. 17 Q. We talked about appointments and I 18 understand the appointments for the product that 19 they purchased, that is to say appointments are 20 set up, as you say, with an accountant right away 21 to assess various things. Are there other types 22 of appointments set up? 23 A. Yes. 24 Q. What kinds of appointments? 25 A. Sales, admin.</p>

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<p style="text-align: right;">Page 133</p> <p>1 M. Savage 2 Q. Explain that, please? 3 A. There will be a business sales plan 4 appointment. Hey, do you have a business plan? 5 Do you want a business plan? 6 Q. Are customers told at the time that 7 these appointments, as you call them, are set up 8 that they are in fact solicitation calls for 9 other products? 10 A. I don't know. 11 Q. Do you know who would? 12 A. Who would be the best person? Probably 13 Gary. He's in charge. Luke Kennedy. 14 Q. How quickly after the initial call are 15 these appointments, I'll call them solicitation 16 appointments set up for? 17 A. It varies. I would say over the course 18 of the next couple months. 19 Q. Couple two months or six months? 20 A. Two months. 21 Q. I'm going to run down a list of 22 entities, again, from your production to us. I 23 just want to verify that they are entities of The 24 Tax Club and I'm trying to think of the best way 25 to do this, if we should -- there are about a</p>	<p style="text-align: right;">Page 135</p> <p>1 M. Savage 2 Q. When you say a business plan brand, it 3 is one of your products? 4 A. Yes. 5 Q. Briefly describe what you do, what My 6 Essential Plans does? 7 A. Business plans, produce a business plan. 8 Business plan has several different components; 9 has a financial/marketing/operational component 10 based on their business. Like your cups, it 11 would be, you know, how you're going to obtain 12 the money, I guess, to start your business, do 13 you have a web site, how are you going to market 14 to your web site, what are your financials. You 15 know, a business plan. You want me to elaborate 16 or -- 17 Q. No. 18 A. It's a business plan by definition. 19 Q. Is it specific or is it a generic 20 business plan or is it specific to what I've told 21 you my business is going to be? 22 A. Specific. 23 MS. PROSPER: Let's take a half an hour 24 break and we'll be back at a quarter to 2. 25 (A luncheon recess was taken.)</p>
<p style="text-align: right;">Page 134</p> <p>1 M. Savage 2 dozen of them. If you give me a brief 3 description after each one, you tell me if it's a 4 Tax Club entity indeed, a brief description and 5 whether or not it is a separate entity from The 6 Tax Club or Manhattan Professional Group. Is 7 that too many questions? So what we want to 8 know, is this an entity that The Tax Club is 9 affiliated with, what do they do and are they a 10 separate company within The Tax Club or are they 11 part of that same club? 12 I'm going to rephrase that last 13 question. 14 So the three parts of the question are: 15 Have you ever heard of this company, how is it 16 affiliated, if at all, with the Tax Club, a brief 17 description of what it does, and if it's not 18 under your umbrella, tell me how -- I don't want 19 to say incorporated, I'm not sure it is, so how 20 it's structured. 21 A. Okay. 22 Q. So My Essential Plans? 23 A. Is a brand, it's our business plan 24 brand, Manhattan Professional Group, under 25 Manhattan Professional Group.</p>	<p style="text-align: right;">Page 136</p> <p>1 M. Savage 2 Q. So we're back on the record and I think 3 we are going through these entities that are 4 related in some way to the Tax Club, and you're 5 telling me if they are or not and we are on All 6 Access Books. 7 A. Brand of MPG. 8 Q. What is All Access Books? 9 A. Bookkeeping product. 10 Q. Vital Payroll? 11 A. A brand of MPG, payroll services. 12 Q. Business Document Center? 13 A. Discontinued. At one point it was just 14 a random library of documents. Discontinued 15 though. We don't sell that. 16 Q. For how long? 17 A. It's been discontinued for over a year. 18 Q. Success or Successful Planning? 19 A. It's another brand of MPG. 20 Q. What do they do? 21 A. There's different products within that 22 brand. There is a -- we do -- we sell -- I think 23 we sell -- not I think, merchant account 24 services. 25 Q. Describe that for me, please.</p>

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<p style="text-align: right;">Page 137</p> <p>1 M. Savage 2 A. Setting up clients with the ability to 3 accept credit cards. Wills, trusts, that we 4 outsource to -- 5 Q. That's under Successful Planning too? 6 A. Yes. We outsource that to an attorney. 7 What else do we do? 8 Q. Is it Success or Successful Planning? 9 A. It's Success Planning. 10 Q. If you don't know, is there someone who 11 could give me -- if you haven't -- if you don't 12 feel like you're giving me the full circle -- 13 A. Luke Kennedy. 14 Q. Small Biz Credit? 15 A. Business credit. 16 Q. That is a brand as you call it? 17 A. Yes, it's a brand of MPG, and that is a 18 service in which it helps clients, you know, have 19 a business, brand of business, established 20 credits, Dun & Bradstreet number, credit lines, 21 credit cards in that business' name, Home Depot 22 cards, bank accounts. It's a way of, you know, 23 establishing credit for your business. 24 Q. Success Merchant Processing? 25 A. That is a brand, MPG. It's also part of</p>	<p style="text-align: right;">Page 139</p> <p>1 M. Savage 2 Q. My E-Biz? 3 A. Discontinued, and it was web site 4 design. 5 Q. When was it discontinued? 6 A. I don't know. If I had to guess, a year 7 ago. 8 Q. Corporate Records Pro? 9 A. That is a brand of The Tax Club, and 10 what that is is an on-line program allowing 11 companies to keep track of their corporate 12 documentation, minutes, corporate filing papers, 13 and it's a reminder system, oh, your sales tax is 14 due or -- it's just an organization system for 15 corporate documents. 16 Q. You distinguish a brand of The Tax Club 17 and you mentioned all the other ones were brands 18 of Manhattan Professional Group. 19 A. Ahuh. 20 Q. What's that distinction? 21 A. It's associated with selling 22 incorporation services. That's why it's part of 23 The Tax Club. 24 Q. And the MPG brands are non-incorporation 25 services related, would you say?</p>
<p style="text-align: right;">Page 138</p> <p>1 M. Savage 2 Success Planning Group. Anything with "Success" 3 is Success Planning Group. We use Success 4 Planning Group just for internal organizational 5 purposes, but anything with the name "Success" in 6 it, that is the merchant processing, setting 7 clients up with the ability to take credit cards. 8 Q. I'm going to stop you and ask you to 9 define when you say "brand" what you mean because 10 you've used that term throughout? 11 A. Something we would market, something 12 that our clients -- I mean, we don't necessarily 13 market Manhattan Professional Group. We'll 14 market Success Merchant Processing as a brand. 15 Q. When you say "brand," something that you 16 oversee versus something that comes in from the 17 outside, is that a good way of putting it? 18 A. Yes. 19 Q. Okay, that's good for me. Internet 20 Marketing? 21 A. That is under -- that's a brand for 22 Manhattan Professional Group and that does web 23 site design. 24 Q. Were you going to say something else? 25 A. Web site design.</p>	<p style="text-align: right;">Page 140</p> <p>1 M. Savage 2 A. For the most part. 3 Q. I don't want to put words in your mouth. 4 A. To the best of my knowledge, yes. 5 Q. And the last one I have is I-Congo? 6 A. I-Congo, done, discontinued. That was 7 logo design. 8 Q. Discontinued as of when? 9 A. Over a year ago. 10 Q. And Logo Design? 11 A. Yeah, let me clarify. It was a separate 12 entity. Now it's a brand and all it is is logo 13 design. 14 Q. So it's discontinued or it's now Logo 15 Design? 16 A. Yes, I misspoke. Logo Design, it's 17 always been Logo Design. It used to be a 18 stand-alone entity. 19 Q. So the stand-alone entity is 20 discontinued? 21 A. Yes, dissolved. 22 Q. So it's now -- 23 A. It's a brand of MPG. 24 Q. Is this list exhaustive that you know of 25 or are there others that I didn't mention? I</p>

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<p style="text-align: right;">Page 141</p> <p>1 M. Savage 2 could say them again if you -- 3 A. We have a lot of products. They come 4 and go depending on client demand. You know, 5 business services, they're all related business 6 services, so to say that that's completely 7 comprehensive, the answer would be no, but it's 8 definitely the vast, vast majority. 9 Q. Is there a category of things that are 10 not listed here? 11 A. No. 12 Q. Must a customer purchase one of your 13 basic incorporation before they could purchase 14 one of these other plans? 15 A. No. 16 Q. Is there a basic Tax Club membership 17 that you need before you can tap into any of the 18 other resources? 19 A. No. 20 Q. The entities that we just spoke about, 21 the 11 including the discontinued ones, are they 22 useful to a non-incorporated business, would you 23 say, in your estimation that they're used for? 24 A. They certainly could be useful, yes. 25 Q. Are they more useful to an incorporated</p>	<p style="text-align: right;">Page 143</p> <p>1 M. Savage 2 Q. How soon after the sale is the 3 customer's payment charged, that verification 4 piece of the sale? 5 A. Immediately. 6 Q. If a customer wanted to refer someone, 7 an existing customer wanted to refer someone to 8 Tax Club for its services, is there any type of 9 commission to that -- 10 A. No. 11 Q. I'm going to talk about the refund 12 policies themselves. 13 Can you please describe, I know you 14 touched on it before, Tax Club's refund policy? 15 A. Our refund policy is three days from the 16 point of the sale that they get all their money 17 back. Very easy process, e-mail or call into 18 billing, 100 percent money back up to -- 19 Q. Three business days? 20 A. -- three business days. 21 Q. If I bought on Friday, it's now Monday, 22 it would be a few days later? 23 A. Yes. 24 Q. Just business days or not business days 25 is the question?</p>
<p style="text-align: right;">Page 142</p> <p>1 M. Savage 2 business? 3 A. Most of them could be used either with a 4 corporation or with a sole proprietorship. 5 Q. Something like Corporate Records Pro -- 6 A. That's the one I was thinking of. 7 Q. Board meetings and such? 8 A. There would be no reason to have that if 9 you're a sole proprietor. 10 Q. What about Vital Payroll? 11 A. Again, you wouldn't be able to have a 12 payroll if you didn't have a corporation. 13 Q. At what point, if at all, during the 14 initial sales call is The Tax Club's refund 15 policy explained to a new or potential customer? 16 A. We explain the refund policy in 17 compliance, in verification. 18 Q. So that's the second portion of the 19 call? 20 A. It's the same phone call, but yeah, I 21 won't elaborate and probably shouldn't, but the 22 reason we don't have the sales rep say it because 23 then they would say get this, don't worry, we'll 24 refund it tomorrow. It would be a sales tactic. 25 It would be a mess, is what it would be.</p>	<p style="text-align: right;">Page 144</p> <p>1 M. Savage 2 A. No, I would say no because we're open on 3 Saturday. 4 MR. MITCHELL: Do you want to confer 5 with counsel? 6 MR. SANSCRAINTE: Off the record. 7 (A discussion was held off the record.) 8 MS. PROSPER: So back on the record. 9 Just let the record reflect that Mr. Savage 10 conferred with Mr. Sanscrainte, his attorney, 11 and clarified that it was business days in 12 regards to three, the three days. 13 THE WITNESS: Yes. 14 Q. For a full refund? 15 A. Yes. Our attorney wrote it. Joe wrote 16 it. 17 Q. And then do you give partial refunds? 18 A. Oh, yes. 19 Q. Until what point? 20 A. 15 days regardless of fulfillment we 21 will give up to 85 percent back, meaning we've 22 retaken 15 percent, and we generally have a 23 minimum to no complaints about that. That 24 15 percent represents, obviously, having to staff 25 accountants in the event that a client would --</p>

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<p style="text-align: right;">Page 145</p> <p>1 M. Savage 2 would, you know, take our -- take up -- you know, 3 take the services by asking accountants 4 questions, also merchant fees, you know, 5 Visa/MasterCard, they'll charge both ways, 6 charging and refunding. I think you could look 7 at it as a restocking fees. I'll say most 8 clients don't have a problem with that, and that 9 if they do, we'll always make exceptions. In 10 fact, we very oftentimes will make exceptions 11 beyond the 15-day period as well.</p> <p>12 Q. Who makes decisions on those exceptions? 13 A. Our billing manager.</p> <p>14 Q. Who is that? 15 A. Lindsey Kush.</p> <p>16 Q. Is it within her full discretion whether 17 or not she goes outside of the policy? 18 A. Ahuh.</p> <p>19 Q. What, if any, specific steps must be 20 undertaken by the customer to ensure they get a 21 refund?</p> <p>22 A. We send them a refund authorization form 23 that they sign saying that they got the refund so 24 they can't get a refund and then also charge it 25 back and then we don't have any proof with the</p>	<p style="text-align: right;">Page 147</p> <p>1 M. Savage 2 oftentimes clients will call wanting to cancel, 3 thinking about cancelling. They go to our 4 customer service department. Within our customer 5 service department we have a saves department 6 which is two or three people and they attempt to 7 what we call save the client, meaning keeping 8 their membership active. If they agree to it, we 9 have a separate compliance/verification process, 10 so someone calls and wants to cancel, they get 11 sent to the saves department, saves department 12 says oh, no, they're fine, they want to stay on 13 board, they get sent to our verification process 14 which is, you know, a different script. It says 15 you're agreeing to stay on board, you're agreeing 16 that we're going to charge your credit card X 17 amount, this is who you are, this is your billing 18 address, your credit card number, so it's almost 19 as if it's a brand new sale.</p> <p>20 Q. From the time that a customer calls to 21 cancel, what's the time frame before they get a 22 save call? 23 A. Immediately. If they don't -- in fact, 24 our policy is if the saves call -- if they call 25 and cancel and the saves, quote/unquote, don't</p>
<p style="text-align: right;">Page 146</p> <p>1 M. Savage 2 credit card companies, and it's important to note 3 that when they request the refund, that's -- it's 4 not when they actually send us back the signed 5 form or fax it back, it's when they request it is 6 when we determine it's three days or 15 days. 7 Q. So on the day of the request you count 8 back -- 9 A. Yes. 10 Q. -- how many days? 11 A. Yes. Not the day that we actually 12 receive the request. That could happen 30 days 13 later. 14 Q. How long does it take for a customer's 15 credit card to be credited after the request 16 date? 17 A. What we tell them is typically seven to 18 10 business days. We try and do it immediately, 19 but we say seven to 10 business days. 20 Q. Are you familiar with something called a 21 "save call"? 22 A. Yes. 23 Q. Could you explain what a save call is? 24 A. We have a saves department. It's within 25 our customer service department and they --</p>	<p style="text-align: right;">Page 148</p> <p>1 M. Savage 2 save the client, within 48 hours they immediately 3 start going through our refund process. 4 Q. So would you say you wait for the save 5 call before you start the refund process? 6 A. No. The refund process starts 7 immediately, but I would say that we wouldn't 8 actually refund the client money until either the 9 saves -- someone in the saves department had a 10 chance, customer service department had a chance 11 to talk to them or it was 24 to 48 hours, unless 12 they fall within the three days, obviously that's 13 immediate. 14 Q. So what you just described is for day 15 four through 15? 16 A. Four through forever. 17 Q. Do you also try to save folks who have 18 paid for their -- paid in full for their initial 19 package but just want to cut off the monthly fee? 20 A. No. 21 Q. So would you say that the save calls are 22 only for folks who want a full refund, a full or 23 85 percent refund? 24 A. Full or partial refund, yes. 25 Q. How many save calls are attempted?</p>

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<p style="text-align: right;">Page 149</p> <p>1 M. Savage 2 A. I don't know. 3 Q. Do you know who would? 4 A. Preston Clark. 5 Q. What, if anything, happened to the 6 salesperson who made a sale that is later 7 refunded? 8 A. They do not get commission on it. 9 Q. Is there a reward for The Tax Club 10 employee who saves a call? 11 A. There is a small commission. It's not 12 the same commission as if it's an original sale 13 but there is incentive. 14 Q. Does the original salesperson get their 15 commission for a saved call? 16 A. They split it with the saves 17 representative. 18 Q. Can you estimate the total number of 19 customers serviced by The Tax Club in an average 20 year? 21 A. In an average year? 22 Q. Yes, let's say over the last three to 23 five years. 24 A. Over the last three to five years, 25 unique customers, I would say over 100,000.</p>	<p style="text-align: right;">Page 151</p> <p>1 M. Savage 2 part ways. 3 Q. And actually get the refund? 4 A. Yes. 5 Q. And does that encompass the three day 6 through the 15th day refund? 7 A. Yes. 8 Q. If you know, what percentage of 9 customers who request refunds actually get them? 10 You might not know the answer to the first 11 question. 12 A. Who request them? I don't know the 13 answer to that. 14 Q. Do you know who might? 15 A. Lindsey Kush. 16 Q. Has The Tax Club or any related entity 17 been the subject of an investigation or 18 enforcement action by a law enforcement agency? 19 A. We had an IRS investigation that I spoke 20 of earlier. You want me to reiterate? 21 Q. No, thanks. We have that on the record. 22 A. That was it. 23 Q. Has any other Attorney General's office 24 brought an action or investigation against The 25 Tax Club?</p>
<p style="text-align: right;">Page 150</p> <p>1 M. Savage 2 Q. I'm glad you mentioned the word "unique" 3 versus products sold. Can you estimate total 4 profits, gross or net, for the last three to five 5 years? 6 A. Estimate? 7 Q. Yes. 8 A. I could tell you last year our profit, 9 our books aren't closed yet so it's not official, 10 but our profit is anywhere from 3 to \$5 million 11 in 2010. 12 Q. Is that net or gross? 13 A. That's net. 14 Q. Net after everything? 15 A. Yes. 16 Q. If you know, what percentage of your 17 customers eventually request a refund? 18 A. I do not know the cancellation request, 19 but I do know what our cancellation rate is. 20 Q. What's the cancellation rate? 21 A. 15 to 20 percent. 22 Q. And when you say your cancellation rate, 23 what does that mean, what number is that? 24 A. People who call in and say -- people who 25 call in and want a refund and, you know, want to</p>	<p style="text-align: right;">Page 152</p> <p>1 M. Savage 2 A. No. 3 Q. You're talking about Utah and New York? 4 A. Ahuh, and we do business in all 50 5 states. 6 Q. Does The Tax Club engage in advertising? 7 A. We have in the past, yes. 8 Q. What kind of advertising did you engage 9 in? 10 A. We've had radio commercials, one, and 11 we've done some Internet advertising but nothing 12 material. Our advertising budget is nil, so it's 13 not material at all. 14 Q. When you say "radio," what radio waves? 15 A. It was a Spanish radio station about 16 eight years ago, six years ago. This was when we 17 were trying to start Tax Club Latino. We were 18 helping undocumented workers file for -- you 19 know, pay taxes. It wasn't very successful. 20 Q. You mentioned some web advertising. 21 A. Yes. I believe there's been a banner 22 somewhere. I shouldn't speculate. I don't know. 23 Q. Do you know who would know? 24 A. Lindsey Kush. 25 Q. Do you have a specific audience to</p>

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<p style="text-align: right;">Page 153</p> <p>1 M. Savage 2 which -- to whom you advertise? 3 A. If we advertised, do we have a 4 demographic? 5 Q. Are you looking for a certain person? 6 A. Yes, entrepreneurs and small business 7 owners. 8 Q. Is there a web site maintained for The 9 Tax Club? 10 A. Yes, thetaxclub.com. 11 Q. What does it contain? 12 A. It contains our general information 13 about what we do, who we are, also has a 14 members-only section, also gives access to our 15 Virtual Tax Organizer which is a database of our 16 clients' information that we use to prepare their 17 taxes. 18 Q. What's on the members-only part? 19 A. There's articles specific to small 20 businesses, there's information -- helpful 21 information regarding being successful as a small 22 business owner. 23 Q. When you say your members, that is 24 someone who pays a monthly fee of some kind? 25 A. Yes.</p>	<p style="text-align: right;">Page 155</p> <p>1 M. Savage 2 Q. All of them? 3 A. Yes. We might have one or two in Wells 4 Fargo, but 95 percent, if not more, Bank of 5 America. 6 Q. What kinds of accounts do you have? 7 A. Business accounts, checking, savings 8 accounts. 9 Q. Do you have like operating versus, I 10 don't know, something else or payroll and 11 different -- 12 A. Yes, we have a payroll account, 13 operating account, and then various savings 14 accounts, checking accounts, but all of which are 15 from the operations. 16 RQ Q. Can you provide us with the accounts, 17 the routing numbers and the current balances 18 associated with your business accounts? I'm sure 19 you don't have that with you right now. 20 A. Yes. I don't have it memorized, no. 21 Q. Where do you bank personally? 22 A. Bank of America. 23 Q. Do you have any personal bank accounts 24 in any other states, other than New York? 25 A. Washington.</p>
<p style="text-align: right;">Page 154</p> <p>1 M. Savage 2 Q. Are there products that don't require a 3 monthly fee? 4 A. Yes. 5 Q. Can you tell me the category of ones, 6 you know, which ones do or some of them? 7 A. Business Plans do not, yeah. 8 Q. Who maintains your web site? 9 A. We do internally. 10 Q. Do you have a team of web site people? 11 A. Ahuh. 12 Q. Who are they or who do they work under? 13 A. They work under -- it falls underneath 14 Gary Milkwick. 15 Q. He's -- I'm sorry? 16 A. Director of Operations. 17 Q. In general, who created the content for 18 the web site? 19 A. We did internally. 20 Q. Does The Tax Club and its affiliates 21 maintain business bank accounts in association 22 with its day-to-day operations? 23 A. Yes. 24 Q. Can you tell me what banks those are? 25 A. Bank of America.</p>	<p style="text-align: right;">Page 156</p> <p>1 M. Savage 2 Q. State? 3 A. Ahuh. 4 Q. What about other countries? 5 A. No. No. I'm sorry, I don't. I do not. 6 Q. You don't? 7 A. No. 8 Q. What about other countries? 9 A. No. 10 Q. Have any other Tax Club related entities 11 ever received funding in any way from the 12 government? 13 A. No. 14 Q. Have any Tax Club related entities 15 received any other types of grant or funding from 16 private or any other sources? 17 A. No. 18 Q. Does The Tax Club owe any debt? 19 A. No. 20 Q. What are, you know, I guess big picture, 21 unless you know specifically, what are the Tax 22 Club's assets? 23 A. We don't have -- our balance sheet is 24 not asset heavy. We don't have cash on hand. We 25 don't own property. Our assets would be our</p>

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<p style="text-align: right;">Page 157</p> <p>1 M. Savage 2 employees, intellectual property. 3 Q. Who controls these assets? Who 4 controls, as you call it, the intellectual 5 property or whatever funds there are? Who is in 6 charge of that? 7 A. Lindsey Kush. 8 Q. Has The Tax Club ever filed for 9 bankruptcy? 10 A. No. 11 Q. Have you ever personally filed for 12 bankruptcy? 13 A. No. 14 Q. Do you plan to? 15 A. No. 16 Q. Are there any pending judgments against 17 you personally? 18 A. No. 19 Q. Are there any pending judgments against 20 any Tax Club related entities? 21 A. No. 22 MS. PROSPER: So we just want to review 23 based on the answers you gave what documents 24 were sort of promised or information that 25 were not already produced on the hard drive</p>	<p style="text-align: right;">Page 159</p> <p>1 M. Savage 2 interrupt? 3 MS. PROSPER: Please. 4 MR. SANSCRAINTE: Is there anybody that 5 owns intellectual rights, other than 6 Mr. Johnson? 7 THE WITNESS: No. 8 MR. SANSCRAINTE: So I'm just thinking 9 there may -- Mr. Johnson owns -- 10 MS. PROSPER: What is it that he owns? 11 MR. SANSCRAINTE: Okay, got you. 12 MR. MITCHELL: Regarding if a customer 13 wanted to refer someone to The Tax Club for 14 services, are they paid any type of 15 commission? Lindsey Kush would talk about 16 any question we have regarding the point of 17 sales and point of refunds. She could answer 18 those? 19 THE WITNESS: Yes. 20 MR. MITCHELL: Preston Clark would deal 21 with any question we have regarding save 22 calls? 23 THE WITNESS: Ahuh. 24 MR. MITCHELL: Luke Kennedy can tell us 25 about the business plan sales appointments;</p>
<p style="text-align: right;">Page 158</p> <p>1 M. Savage 2 as well as -- just so we know what we're 3 waiting for and then we could set some sort 4 of time frame. We have the various names of 5 folks who could provide information you 6 didn't off the top of your head. I know that 7 there were -- 8 MR. MITCHELL: I'm going to offer you a 9 couple names; Lindsey Kush regarding the 10 advertisement, we have radio Internet and 11 others. Lindsey Kush with respect to the 12 intellectual property ownership rights or The 13 Task Club assets. 14 MS. PROSPER: Could I ask a follow-up 15 question on the intellectual property? 16 Q. Do you have trademarks and -- you have 17 certain things trademarked? 18 A. Yes. 19 Q. So that's part of the answer that 20 Lindsey Kush would give us? 21 A. Yes. 22 MS. PROSPER: Okay, thank you. 23 MR. MITCHELL: Building management, 24 Lindsey Kush. 25 MR. SANSCRAINTE: Permission to</p>	<p style="text-align: right;">Page 160</p> <p>1 M. Savage 2 is that right? 3 MS. PROSPER: Are we talking about the 4 appointments that come after the initial? 5 MR. MITCHELL: Right. 6 MS. PROSPER: Web site content, did we 7 have a question on that? 8 MR. MITCHELL: He already said Lindsey 9 Kush. 10 MS. PROSPER: Lindsey Kush, sorry. 11 MR. SANSCRAINTE: Off the record. 12 (A discussion was held off the record.) 13 MR. MITCHELL: Brendan Pack, he's a 14 Sales Manager? 15 THE WITNESS: Yes. 16 MR. MITCHELL: He would answer questions 17 about training? 18 MS. PROSPER: Training, right, Brendan 19 Pack. 20 THE WITNESS: Ahuh. 21 MS. PROSPER: I mean, I think there was 22 a series of specific questions and we could 23 talk about how we get the answers to any 24 specific questions, if we want to do an interrogatory or something like that to</p>

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<p>1 M. Savage 2 follow up or especially as to him because I 3 think we would have some follow-up questions 4 on sales training. 5 MR. SANSCRAINTE: Sure, absolutely. 6 MS. PROSPER: Do you have others? 7 MR. SANSCRAINTE: I have a couple of 8 other things, updated org chart. 9 THE WITNESS: Sales scripts. 10 MS. PROSPER: Sales scripts, yeah, or 11 sales training materials. I think I saw a 12 few things on there but I didn't -- wasn't 13 enough to satisfy. 14 MR. MITCHELL: Ted Johnson, he was head 15 of Utah; is that right? 16 MS. PROSPER: He's head of the whole -- 17 THE WITNESS: He's the owner but he's -- 18 he lives in California. 19 MR. SANSCRAINTE: We need background on 20 Maria Petrova. 21 MS. PROSPER: What does she do again? 22 THE WITNESS: Corporations, Corporate 23 Department. 24 MS. PROSPER: Right, the Corporate 25 Department. She's actually somebody who --</p>	<p>1 M. Savage 2 guess it would be -- 3 THE WITNESS: Qualifications. 4 MS. PROSPER: Qualifications, yeah, but 5 I guess it would be more of a job posting. 6 If I wanted to know how could I get that job, 7 what would I refer to to know what the 8 qualifications were and/or the degree 9 requirements, if any. 10 MR. MITCHELL: Just to follow-up on 11 Jason Baum, you know, he does sales training 12 and if a customer sought legal advice, what 13 is told to a salesperson, we could get that 14 from Jason Baum? 15 THE WITNESS: Yes, he would be all over 16 that. 17 MS. PROSPER: He does the sales 18 training, Jason Baum? 19 THE WITNESS: Yes. 20 MS. PROSPER: You mentioned another 21 name, Brendan Pack will sort of be able to 22 complete that narrative of the complaining? 23 THE WITNESS: Yes, and Preston Clark. 24 MS. PROSPER: Do you have anything else? 25 MR. MITCHELL: No.</p>
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<p>1 M. Savage 2 MR. SANSCRAINTE: That's all I got. 3 MS. PROSPER: Do you happen to have job 4 descriptions for anyone like an official -- 5 THE WITNESS: I could get them. 6 MS. PROSPER: Do they exist? I mean, 7 don't make them up. I mean, if they already 8 exist. 9 THE WITNESS: We have titles. 10 Descriptions and duties? Not that I know of. 11 MR. SANSCRAINTE: Could I interrupt? I 12 think we do. I've seen some things in human 13 resources. 14 THE WITNESS: But they're more -- I 15 don't know. They're just like titles and 16 what -- 17 MR. SANSCRAINTE: I shouldn't interrupt, 18 sorry. 19 THE WITNESS: I'll look. I'll send it 20 over, if we do. 21 MS. PROSPER: Okay, and any degree 22 requirements for any of the positions 23 specifically. You know, I know we went 24 through a lot of this, especially with the 25 accountants and all that, so if you have -- I</p>	<p>1 M. Savage 2 MS. PROSPER: I think we're done, 3 gentlemen. 4 This concludes the subpoena hearing of 5 Mr. Michael Savage, President of The Tax 6 Club, and thank you for your time gentlemen. 7 The time now is 2:15. 8 (TIME NOTED: 2:15 P.M.) 9 10 MICHAEL SAVAGE 11 12 13 Subscribed and sworn to 14 before me this day 15 of , 2011. 16 17 18 NOTARY PUBLIC 19 20 21 22 23 24 25</p>